



Liquidity Pools vs Savings Accounts: Rethinking Deposit Strategy in a Skewed Market

Research Brief

The factors that influence deposit stickiness across institutions are well-researched and known—market power, superior services, and deposit insurance—but what about the factors that influence individual depositors within your institution?

Research conducted by the academic partners at nCino's Research Institute (nRI) finds that 70% of total deposits are held by 10% of depositors within institutions.¹ Compared to the majority of an institution's customers, these high-balance depositors are less likely to withdraw deposits in response to interest-rate pressures. Their deposit behaviors are also less motivated by superior service offerings. Instead, research suggests that high-balance depositors value liquidity as a service.

Unpacking the behavioral causes of deposit stickiness within institutions can influence the design of smarter retention strategies that contribute to long-term deposit franchise profitability.

¹ Argyle, A. et al. (2024) Sticky deposits, not depositors [Working paper]. Marriott School of Business. Brigham Young University.



Rethinking Deposit Strategy

Pricing matters, but behavior and utility define your deposit franchise.

Banking publications and industry research typically prioritize competitive rates, personalized customer engagement, and frictionless digital experiences as a means to attract and retain deposits.

As data and analytics tools have evolved from serving mainly risk and compliance functions to include profit-driven and intelligence roles, industry advice has also begun to reflect the need for institutions to leverage analytics for behavioral analysis, particularly in higher rate environments when margins are compressed—magnifying the risks and rewards of consumer behavior.

Recent surveys conducted by *Bank Director* indicate that while nearly two-thirds of banking leaders identified deposit pricing as a significant strategic challenge, relatively few (10%) from the same cohort identified low-cost deposit growth as a primary objective of their technology strategy. Instead, deposit strategies focused on raising interest rates (49%) and offering incentives to depositors (24%) to manage value.¹

The perennial nature of liquidity risk incentivizes reactive deposit strategies. nRI research explores opportunities to move beyond rates and incentives, using utility as a consistent measure of depositor behavior and value.

¹ Alix, L. (2024, January). 2024 Risk report. *Bank Director*; Alix, L. (2024, September). 2024 Technology Survey. *Bank Director*.

Actionable Insights:

Liquidity Management: Institutions often rely on market-based assumptions of customer value to effectively manage aggregate liquidity risk, often exchanging higher rates and better services for deposit stability.

Deposit Retention: Neither market power nor superior services adequately explain the behaviors of high-value depositors which account for 70% of an institution's deposits and exert outsized influence on total deposit stickiness.

Skewed Stickiness: While deposit spread is a leading indicator of average liquidity risk, high-balance accounts do not pay attention to yield whereas narrowing margins for depositors holding less than \$25,000 result in significant account balance reductions.

Segmented Strategies: High-balance depositors value liquidity as a service and use accounts like strategic cash reserves, which is fundamentally different from more transactional depositors with higher rate sensitivities and more service-oriented preferences.

Customer Analytics: Deposit strategies that are informed by factors like account balance, credit profile, transaction behavior, and utility can help institutions leverage the economic drivers of deposit stickiness within their customer base to reduce volatility.

Deposit Profitability: Customer and deposit retention are not correlated, meaning that churn and outflow risk are not tightly aligned. When segmented and managed separately, institutions have an opportunity to build more profitable deposit franchises.

These insights have been synthesized from a working paper published by nRI's academic partners in addition to scholars from the Marriott School of Business at Brigham Young University and the Sloan School of Management at the Massachusetts Institute of Technology. Their research is based on the analysis of 10.6 million deposit accounts across 152 U.S.-based credit unions, from 2011 to 2023. (Argyle et al., 2024)

Strategic Implications

Research from nRI's academic partners makes one thing clear: depositors are not the same. Some depositors chase yield; others want liquidity. Some maintain higher inelastic balances, while others hold more modest transactional accounts. In recent years, deposit concentrations have continued to skew towards a growing but relatively small percentage of high-balance accounts with potentially significant implications for liquidity and relationship management.

Liquidity Pools

"A liquidity pool holds funds temporarily for imminent expenses or reallocation to other investments. Such balances are often earmarked for a specific use case, such as tuition payments or a home purchase. Because these funds have a designated non-savings purpose and are held short-term, deposits in a liquidity pool are less responsive to interest rate changes. We expect these balances to remain stable until the account is suddenly drawn down for the planned expenditure."

(Argyle et al., 2024, p.16)

Strategies informed by aggregate stickiness may project stability, but they are also likely costly. Offering tiered interest rates for high-balance depositors may not reliably encourage them to hold funds, since their behavior is often driven by life events rather than marginal consumption. In contrast, even modest rate differences can prompt outflows from rate-sensitive, low-balance accounts.

The perception of deposit stability—driven by the relative inelasticity of an institution's *deposit dollars*—may obscure the risk of outsized churn from rate-sensitive depositors. Customers who derive greater marginal utility from each additional dollar are likely to seek returns in higher rate environments.

As competition increases, margins compress, and retail deposit growth slows, institutions are reevaluating their market strategies and pricing logic. If a significant proportion of an institution's overall value is held by customers who do not chase yield, then institutions have an opportunity to reframe profitability by focusing on strategic retention—weighing the marginal utility of interest rate pass-through against the marginal cost of targeting specific account segments.

When institutions can measure deposit stability in terms of segmented concentration risks, behavioral nuance, and marginal utility, they are more likely to build a deposit franchise that withstands traditional power dynamics, allowing them to compete in a crowded market without over-indexing on rates and risking profitability.

The nCino Research Institute

Our mission is to deliver timely, data-driven insights that empower financial institutions to make informed decisions and thrive in a complex global banking landscape.

Harnessing the right combination of data and analysis is essential for institutions that want to continuously innovate in today's rapidly evolving market.

Built on rigorous research, transparent findings, and real-world impacts, nRI is a trusted source for decision-makers looking to stay ahead of industry shifts.



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