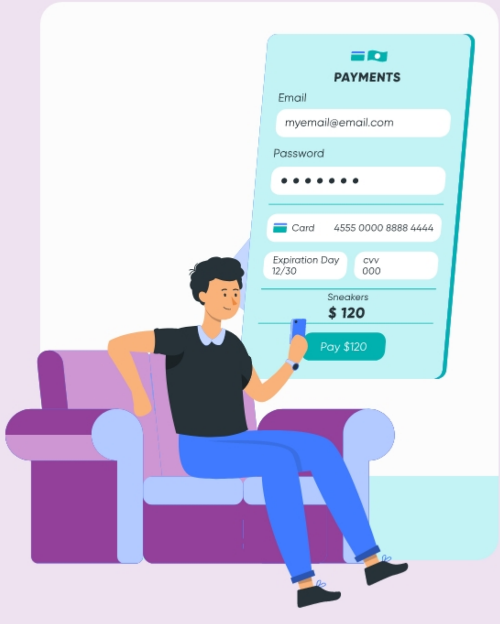
SunTec

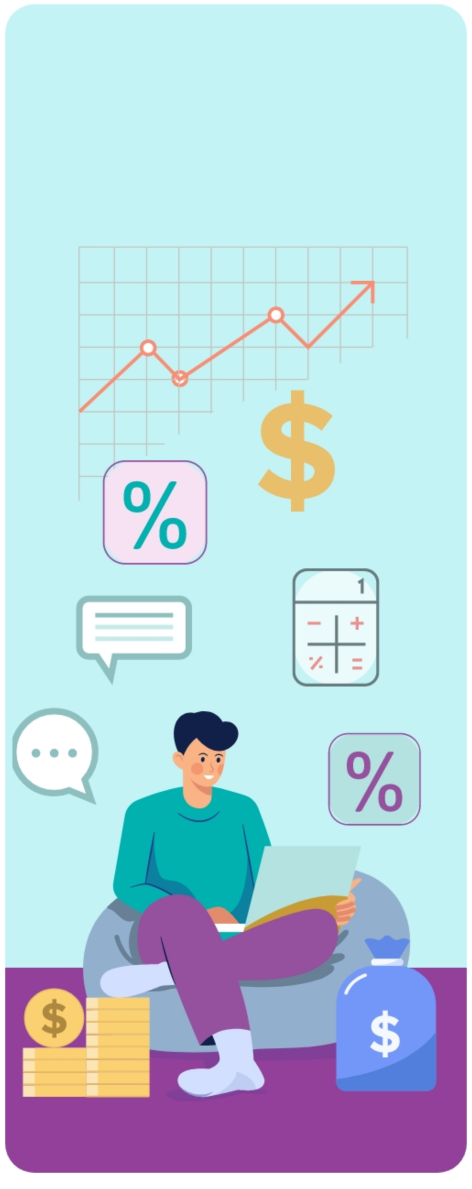
Innovation and Agility, Key to Better Rate Management Amidst Rising Interest Rates

The US Federal Reserve has been aggressively hiking interest rates through 2022 in a bid to combat rising inflation. These rate hikes come after almost a decade of low interest rates in the market. But the pandemic, followed by the war in Ukraine, and escalating tensions between China and Taiwan have caused deep disruptions in global supply chains, leading to a growing inflation crisis. The Fed may continue to hike interest rates as the crisis continues in 2023. This puts banks under pressure as borrowing becomes more expensive for customers. How can banks sustain revenue growth amidst these market circumstances and what can they do differently to offset the impact of rising interest rates?

The Impact of Rising Interest Rates



Interest based income is a key revenue generator for banks. Customers deposit their money with banks and are compensated via interest on the deposit. This money is then used by the bank for offering loans at higher lending rates. The balance between the deposit interest rate and the loan interest rate is the profit for the bank. With interest rates soaring, banks are finding it difficult to attract and retain customers. Retail customers are directly affected by the increasing rates and are likely to cut down on revenue generators like home mortgages, and credit card purchases. Rising interest rates amidst increasing inflation also has a negative impact on stocks and bonds. This comes at a time when banks are facing increased competition for share of wallet from fintechs and neo banks, coupled with eroding customer loyalty. Customer retention strategies are a top-of-mind priority for most banks, and they are looking to leverage digital customer experience in banking to ensure long term loyalty.



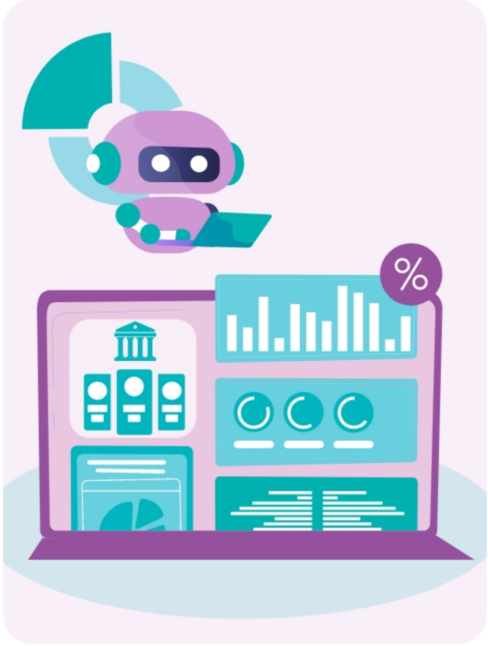
Flexible and Agile Rate Management for Customer Retention

The second quarter of 2022 saw banks in the US lose an aggregate USD 370 billion in deposits. While more than half the banks still showed higher levels of deposits over the first quarter, there is no denying that deposits and balances are on the decline. Evidently, banks can only weather this storm with some innovative, out-of-the-box strategizing. Flexible rate management, new products, and greater personalization can help win the day. Retail banks must focus on customer-centric banking approaches and hyper-personalized pricing and offers to meet their customer retention objectives and for increasing life-time value of banking customers. Rewarding customers with higher balances with better interest rates is a good way to retain them and ensure long term loyalty. Some American banks are even reviving older approaches like certificates of deposits to encourage customers to maintain deposits and balances.

A Focus on Net New Money

While the benefits of customer retention are multiple, banks must also focus on ensuring the inflow of net new money by acquiring new customers and getting existing customers to increase their spends on the bank's products. Exciting offers and campaigns can bring in new customers while effective cross and upselling strategies can help banks get a larger share of customer wallets. Comprehensive understanding of customer engagement across the banking ecosystem can help them devise and roll out some relationship-based offers that not only deliver on the flexible rate management promise but also ensure cross and upselling.

Robust Technology Foundation for Effective Use of Data and Better Rate Management



Banks now need to step up the use of customer data to gain actionable insights into the customer's behavior and engagement across the ecosystem. This is crucial for devising relationship-based pricing strategies and personalized interest rate management. Customer data and analytics are also critical for dynamic segmentation and dynamic offer management. Based on these insights, banks can take create focused campaigns to attract new customers and entice existing ones to increase their spends. Evidently, older ways of banking are not powerful enough to withstand the disruption and changes within the industry now.

They need to be able to quickly adapt to new interest rates announced by the Fed, roll out flexible and personalized rate strategies and engage meaningfully with their customers. None of this is possible without a robust technology foundation and banks must now accelerate their digital transformation trajectories. A third-party middle layer software that can sit over their legacy cores can provide the agility and scalability they need to meet their rate management requirements. Investing in SaaS-based banking solutions for relationship -based pricing and dynamic offer management is a top priority now.

The threat of the pandemic may be on the wane, but the world is still dealing with the repercussions of lockdowns and disruptions. Geopolitical tensions are simmering in several other parts of the world, all of which will contribute to the fraught macro-economic environment in the country. The Fed has already indicated that it will continue to hike interest rates to combat inflation. Banks must now relook at their rate management strategies and deploy innovative technology-based approaches to protect deposits and continue to grow their profits.