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US savers are keeping their deposits with larger banks rather than higher-yielding alternative accounts

Article

The news: US banking consumers are keeping their funds at traditional big banks, despite better interest rates on offer for deposits at smaller banks and other financial alternatives, per The Wall Street Journal.

Savers missing out: US consumers that keep their deposits in savings accounts and money market accounts at the five largest banks are missing out on billions of dollars by sticking to lower interest rate accounts.

- In Q3, the five largest banks—**Bank of America**, **Citigroup**, **JPMorgan**, **U.S. Bank**, and **Wells Fargo**—offered an average interest rate of 0.4%, according to S&P Global.
- In the same period, the five highest-yielding savings accounts available offered an average interest rate of 2.14% on deposits, per Bankrate.
- Based on deposits tracked by the Federal Deposit Insurance Corporation (FDIC), if consumers had moved their savings to the higher-yielding accounts, they'd have earned $42 billion more in interest.

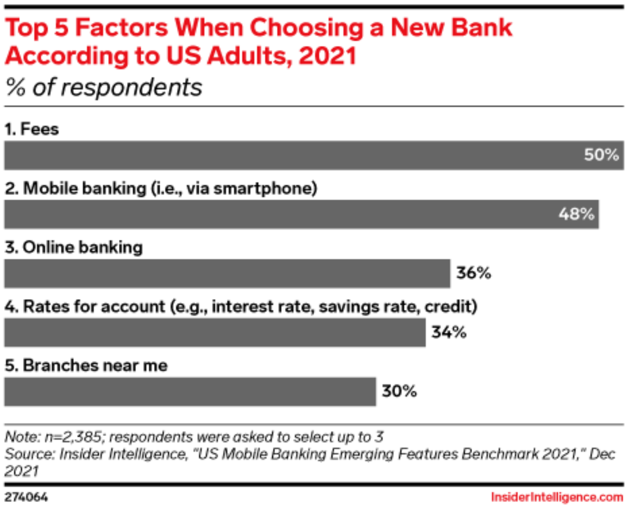
Staying put: Why are customers leaving all that extra money on the table instead of making the move to higher-yielding accounts? According to Gary Zimmerman, CEO of **MaxMyInterest**, a company that moves customers' deposits to new accounts, there are a few reasons.

- He said opening a new bank account is time-consuming and often complicated. Consumers likely don't make switching accounts a priority in their busy lives.
- Some consumers, he said, don't realize that they can earn more money at other banks. And sometimes even those consumers who do recognize the higher interest rate opportunities just lack the initiative to make the change.
- Other consumers with small-deposit accounts at these banks don't see the value in switching. Instead they prioritize convenience and simplicity.

Long-term customers at big banks usually build up additional benefits that they don't want to give up. Some banks offer loyalty benefits like low or no fees, mortgage origination discounts, and lower rates on auto and home equity loans.

Change is slow but it's happening: Though many consumers have stuck with larger banks with lower-yielding accounts, there are signs that both the banks and consumers are making changes.

- Analysts at S&P Global Market Intelligence have seen banks increasing their interest rates in Q4. And they expect that trend to continue in 2023 as the Fed keeps hiking interest rates.
- Consumers are also switching up their investment vehicles. This year saw a record investment in high-yielding products like Series I savings bonds and Treasury bills.



Our take: It's tough to tell if savers' tendency to stick with lower-yielding deposit accounts when better options are available is a result of strong customer loyalty or inertia. But banks shouldn't take the stickiness for granted.

- With open banking growing more prevalent in the US, and the Consumer Financial Protection Bureau (CFPB) preparing to set open banking regulations and requirements in 2023, the ability to switch bank accounts will become much easier.
- Consumers could wake up to what they are missing due to media coverage and friends switching, and be motivated to make a change.
- Banks that are relying on consumers to stick around at lower interest rates should find uniquely attractive ways to keep those customers—or bite the bullet and approach parity with the higher-yielding competition.

*This article originally appeared in Insider Intelligence's **Banking Innovation Briefing**—a daily recap of top stories reshaping the banking industry. Subscribe to have more hard-hitting takeaways delivered to your inbox daily.*

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