Banks’ savings rates are crucial as account switching becomes more common

Article

The news: Almost $60 billion in bank deposits was transferred out of major US financial institutions (FIs) **Charles Schwab**, **State Street**, and **M&T** in the first quarter amid a rise in savers moving their money to find better rates, according to the Financial Times.

What's behind savers switching?

1. **Banking turmoil.** The collapse of three US banks led savers and small businesses to re-examine where they kept their money. **Wall Street lenders reported a rise in deposit inflows** during the first quarter, including **JPMorgan**, which gained about $50 billion at the end of March alone.
2. **Cost-of-living pressures.** Historically high inflation and a sharp rise in interest rates have forced consumers to rethink where they can get the best returns. In March, about one-third of US bank customers who moved money from their primary account to another bank said it was due to better rates, up from a quarter a year earlier, per J.D. Power.
3. **Big Tech's banking rise.** The high interest rate of **Apple's** newly launched savings accounts will draw users, particularly from the brand's legion of loyal customers. Big Tech is edging its way into banking as firms capitalize on strong customer trust and their popularity among Gen Z users.
4. **Ease of use.** The pervasiveness of digital banking means it's never been easier to move money or open a new bank account. This tech encourages the habit of savers switching accounts and can result in banks quickly attracting deposits with superior interest rates. But it also exacerbates digitally driven runs that can spiral dangerously quickly, as **Silicon Valley Bank** found out.

Transitional period for US banking: The rise of Big Tech in finance and digital banking has to some extent eroded incumbent banks' competitive advantage. Consumers have greater choice about where they store their money and can move it more easily. That's leading to rapid changes in US banking.

Expect this to continue as the Federal Reserve's potential interest rate hike and banking sector uncertainty keep savers on their toes, actively seeking out where's best to store their money.

What banks can do: Big Tech, neobanks, and fintechs are stiffening the competition in US banking. But lenders can maintain their market position and grow by enacting certain policies.

- **Offering better rates** is an obvious way to retain and attract customers. Consumers are acutely aware of the need to shop around for better returns and happy to leave banks if they're unsatisfied.
- Incumbent banks can **emphasize the security they can offer customers**. The experience and brand presence that Wall Street lenders are able to offer savers is a major competitive advantage over neobanks and fintechs, especially after recent regional bank failures.
- **The speed and ease with which consumers can open accounts is crucial.** Challengers have excelled at this but incumbents are catching up: many reassigned staff to jobs linked to account openings after the banking crisis and some have shortened waiting times for opening accounts.

Leading Providers US Digital Banking Users Would Trust Most to Provide Them with Banking Services, 2021 & 2022

% of respondents

	2022	2021
PayPal	42.2%	40.7%
Current primary bank** or credit union	41.9%	48.0%
Visa	32.8%	31.7%
Mastercard	20.3%	20.6%
Apple	19.2%	13.0%
Amazon	19.1%	23.3%
American Express	12.9%	16.0%
Venmo*	12.3%	-
Discover	12.0%	11.8%
Another traditional bank or credit union	9.9%	9.9%
Walmart*	7.0%	-
Microsoft	5.1%	6.0%
Another "digital-only" bank	3.1%	5.1%
Alphabet (Google)	2.9%	13.5%
Meta (Facebook)	2.2%	3.3%
TikTok*	1.5%	-
Klarna*	1.3%	-
Other	0.7%	0.8%
Uber	-	0.7%
Lyft	-	0.6%

*Note: *newly added in 2022; **primary bank could include either a traditional bank or a digital-only bank*
Source: Insider Intelligence, "US Banking Digital Trust Benchmark 2022," Aug 2022

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