

# *The Savings Dilemma*

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*A Study of Consumer Savings Behavior*

CBA | CONSUMER  
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NOVANTAS

# *Introduction*

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*Americans are notoriously bad at saving money.*

Whether it's putting aside money in a bank account or pumping a percentage of their paycheck into a 401k, Americans save just 6% of their disposable personal income — down from 11% in 1979.<sup>1</sup>

The government and corporate America have started sounding alarms about this troubling trend.

The Federal Reserve highlighted the issue in a 2017 study that found 40% of Americans surveyed said they didn't have \$400 readily available to pay for an emergency expense.<sup>2</sup> Citing that figure, the Consumer Financial Protection Bureau recently announced an initiative called "Start Small, Save Up" that aims to promote the importance of savings.<sup>3</sup>

Meanwhile, a growing number of companies, from Levi Strauss & Co. to Kroger Co., participate in programs that help their employees save.<sup>4</sup>

Savings aren't only important to individuals, but also the economy and, disproportionately, to banks. Novantas estimates that roughly a third of a bank's market value depends on the robustness and health of the bank savings balances.

Yet for all of its importance, savings behavior — and the needs and attitudes that drive it — has often been ignored by banks.

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<sup>1</sup> U.S. Bureau of Economic Analysis, Personal Income and Its Disposition, 1959-2019

<sup>2</sup> U.S. Federal Reserve, Report on the Economic Well-Being of U.S. Households, May 2018

<sup>3</sup> Press release: "CFPB Starts Small, Save Up Initiative," Feb. 25, 2019

<sup>4</sup> Wall Street Journal, "Employers Help Workers Build Household-Emergency Funds," June 13, 2019

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Recognizing this shortfall, Novantas and the Consumer Bankers Association conducted research earlier this year to understand U.S. consumer attitudes toward savings and their behavior associated with it.

The research surveyed more than 3,000 people who make financial decisions for their households and have at least \$2,000 in savings balances.

The results found that consumers split their savings into three buckets: “today,” “tomorrow” and “someday.” Nearly two-thirds of them are thinking about opening a new savings account, with a better rate being a big factor in that decision. And half of those surveyed said they would be comfortable with an online-only provider.

Furthermore, while many banks consider retail customers to be either price-elastic or inelastic, the research found that customers have different elasticity behavior for different portions of their savings.

This research will be illuminating to banks that face the conundrum of how to grow deposits in a cost-efficient manner that also creates customer stickiness. Competition for deposits from non-bank providers will keep the near-term pressure on banks regardless of Fed rate policy.

Understanding consumer savings behavior will be an important step in winning the battle for valuable deposits.

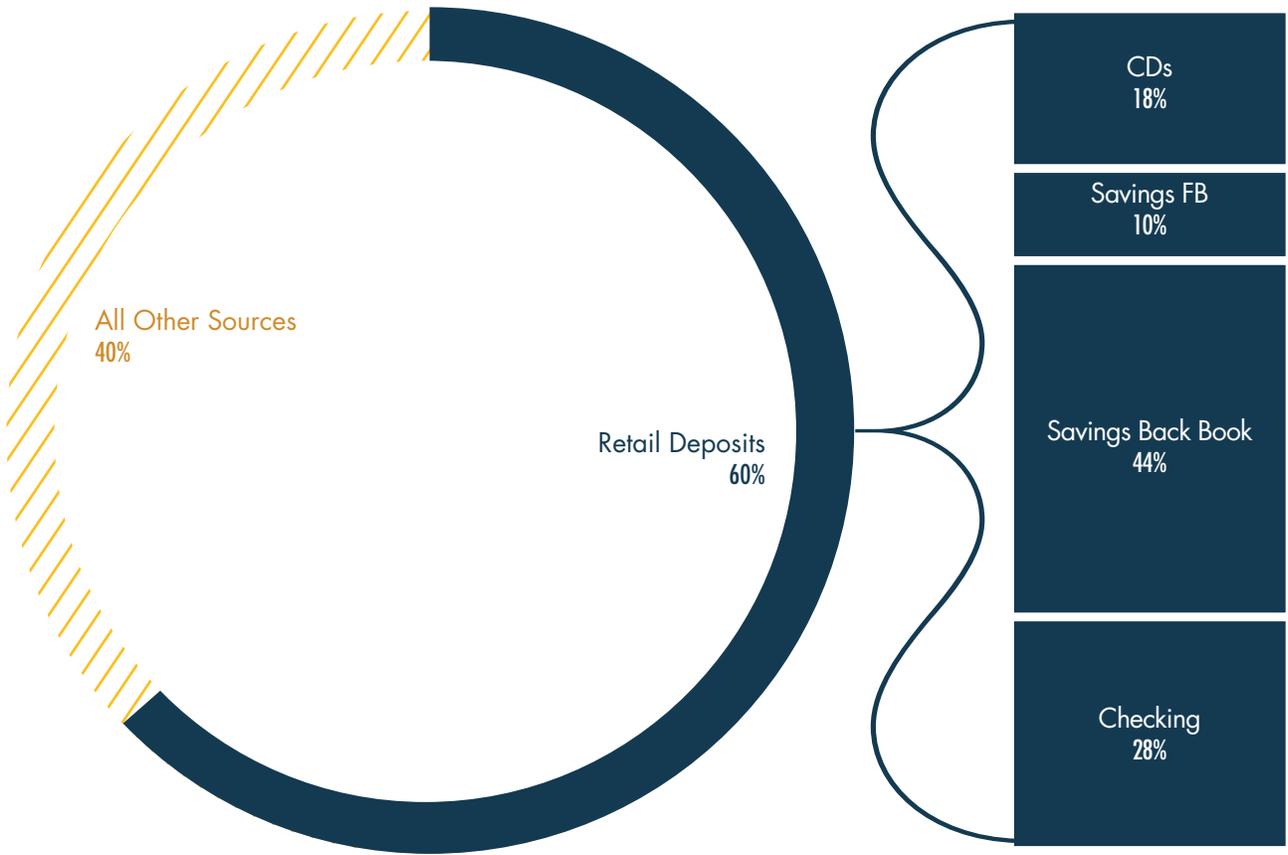
There is an enormous amount of shareholder value tied up in retail deposits, which make up 60% of the deposit landscape. Most of the value comes from non-price sensitive deposits such as back-book savings and checking.

***But 23% of the total \$1.3 trillion of shareholder value is at risk because banks are competing in a price-based “race to the bottom.” That means there is more than \$500 billion at risk.***

Given these trends, the research identifies savings objectives and the different types of savers.

The research sought to understand the rhythm of consumer savings and how people shop for new savings products. It also explored the level of comfort that consumers have with online-only banks compared with traditional institutions.

## THE DEPOSIT LANDSCAPE



Notes (Key Assumptions for Retail): 1. Retail Deposits Assumed at ~\$8.6T, Weighted Avg Funding Yields Range 1.15-3.40%, Industry Retail Operating Margin of ~50%, Industry Tax Rate of 22%, Industry Growth of 2.5%, Allocated Equity of ~2.0% 2. This is not a comprehensive list of all modeling assumptions in the industry model 3. Lending attribution assumes no access to deposit funding 4. Post Funding contribution analysis, "Other" assumed to be a discounted summation of fee income and Sources: Regulatory filings, SNL, Novantas Analysis revenue generated with borrowing vehicles

**300-500+ bp**  
average marginal cost of funds

**70%** of savings deposits in a 'back book' below 50bp

**30%** of rate-sensitive balances have moved to direct banks

**48-65** typical % of acquisition that is re-pricing back book marginal cost of funds

*Why*

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*Do Consumers  
Save*



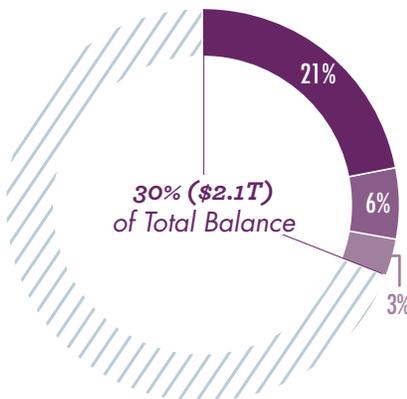
Consumers break their savings into three, fairly equal categories with clear intentions for the money in each bucket.

The primary bank captures nearly two-thirds of the money that is set aside for the funds that will be used most urgently. That means one-third of those funds may still be up for grabs.



### Today

A rainy-day fund that I may need to access quickly



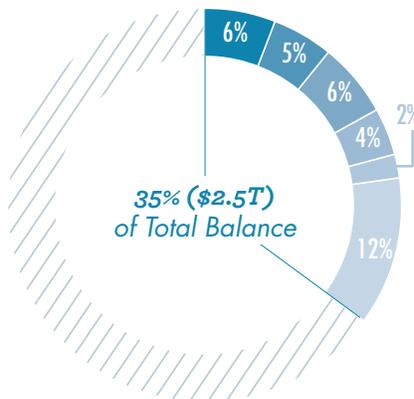
- To cover unplanned expenses
- In case I find myself out of work
- Pay for medical expenses

**61%** held by customers' primary banks



### Tomorrow

I am saving for something specific that I will need in the future



- To travel
- Home improvement
- To buy a large ticket item (e.g. car, furniture, appliances)
- To buy a house
- For education
- I don't have a plan



### Someday

Retirement



**52%** held by banks (vs. brokerage firms/robo-advisors)

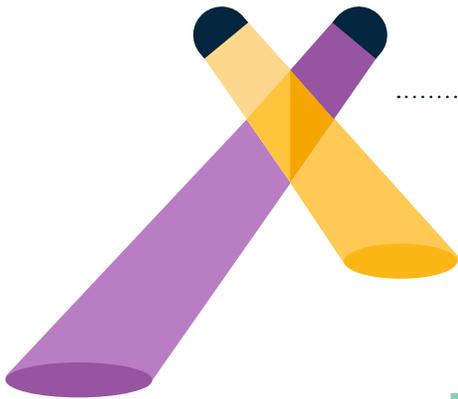
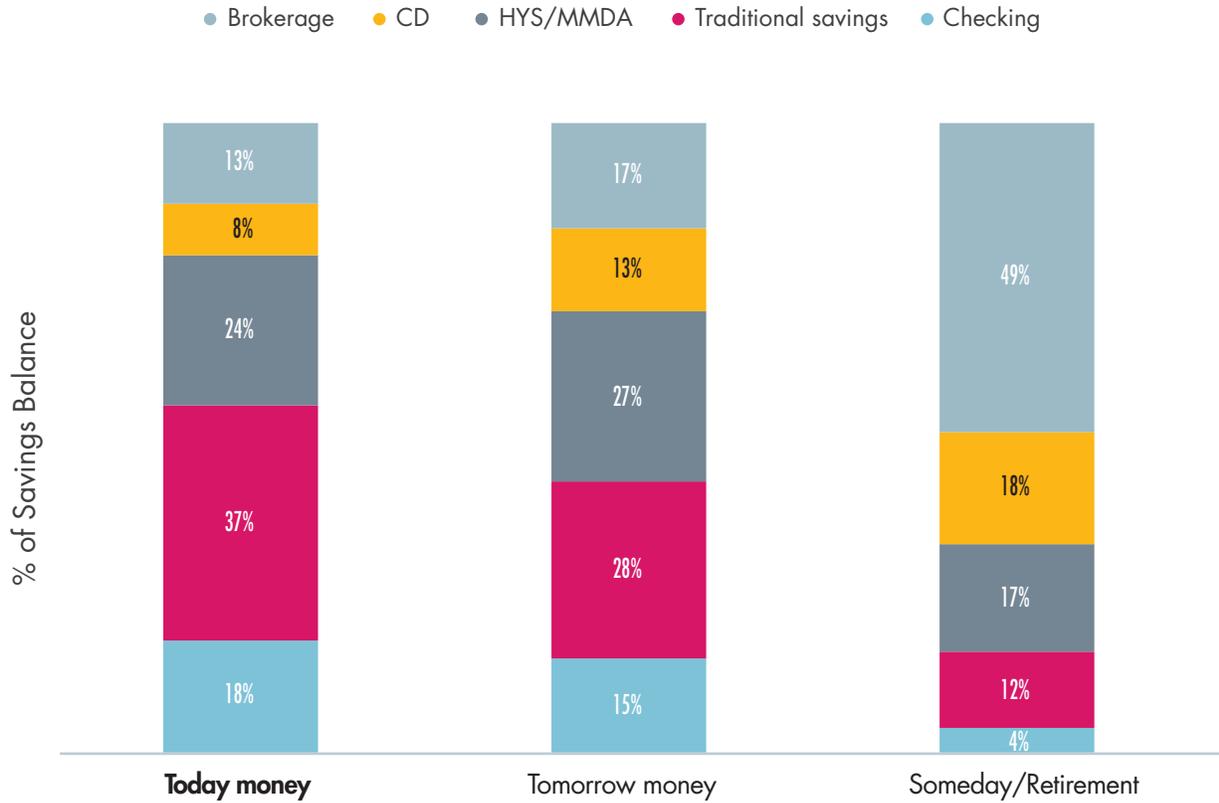
Note: "Other" not included in above framework.

Even though many banks and new entrants have heavily promoted high-yield savings accounts, most “today” money still sits in traditional savings accounts.

Not surprisingly, nearly half of “someday” money rests in brokerage accounts.

Most consumers tap their checking accounts, as well as their savings accounts, for unplanned expenses.

## SAVINGS BALANCE HELD ACROSS PRODUCTS



### SPOTLIGHT ON TODAY MONEY

	Primary checking	Traditional savings	HYS/MMDA	CD	Brokerage
To cover unplanned expenses	63%	62%	47%	27%	23%
In case I find myself out of work	19%	20%	21%	11%	9%
Pay for medical expenses	16%	10%	10%	4%	6%

Base: respondents who keep savings in a primary checking account (N=1535), other checking accounts (N=431), traditional account (N=2198), high rate savings/MMDA account (N=788), CD account (N=631), brokerage account (N=524)  
 Q10, 17, 24, 32, 41, 51 How do you plan to use the savings that you keep in this account? [Select all that apply]

*What*

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*Do Consumers  
Want  
From Their  
Savings  
Accounts*

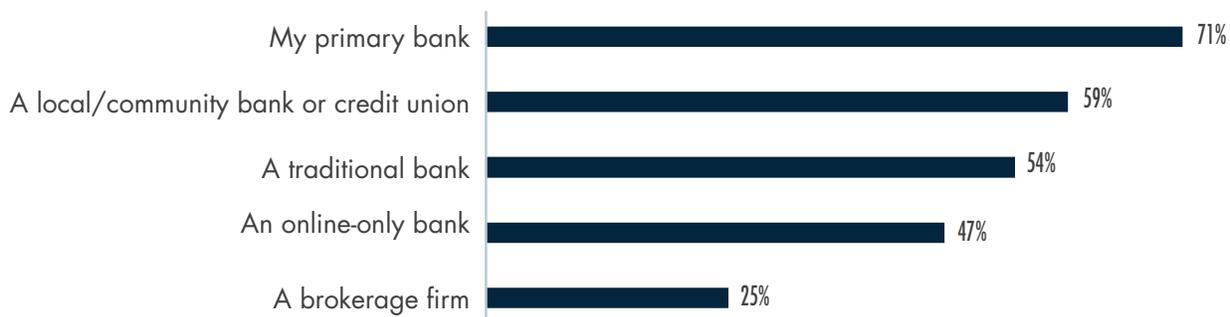
When consumers want to open a savings account, they naturally gravitate toward the bank that already has their checking account.

And despite the hype about non-bank providers, almost 8 out of 10 people wouldn't consider keeping their savings with a company like Amazon or Google.

In fact, Americans are split on whether or not they are comfortable with an online-only provider.

They also expressed other traditional views about savings.

### WHICH TYPE OF PROVIDER WOULD YOU CONSIDER WHEN OPENING A SAVINGS ACCOUNT?



79% would only ever keep savings at a bank

62% prefer to keep money in one place

54% don't pay attention to savings rate

Note: Respondents could choose more than one answer

Nearly two-thirds of surveyed consumers said they were open to or thinking about opening a new savings account. But they are also cautious about moving their money.

Of those who are thinking about opening a new account, two-thirds of them said they would need a 1.1% increase in rate before they would consider opening a high-rate account at a direct bank.

Once the account is in place, rate sensitivity is tied to how and when the money will ultimately be used. As much as 60% of balances are rate-inelastic and most customers have a mix of both elastic and inelastic savings at different times.

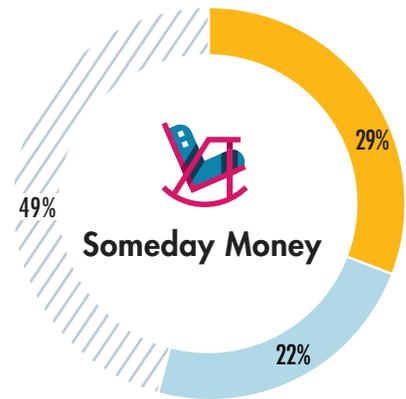
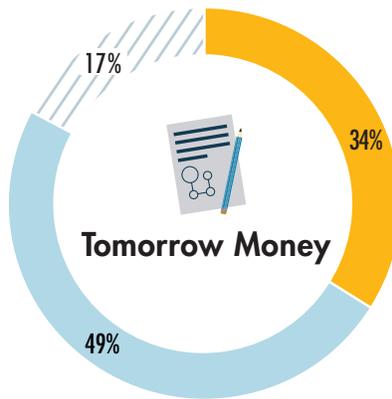
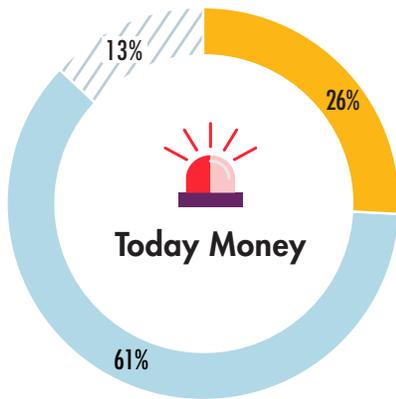
That means banks need to understand the different types of balances, as well as the different types of customers.

## REASONS TO OPEN AN ACCOUNT

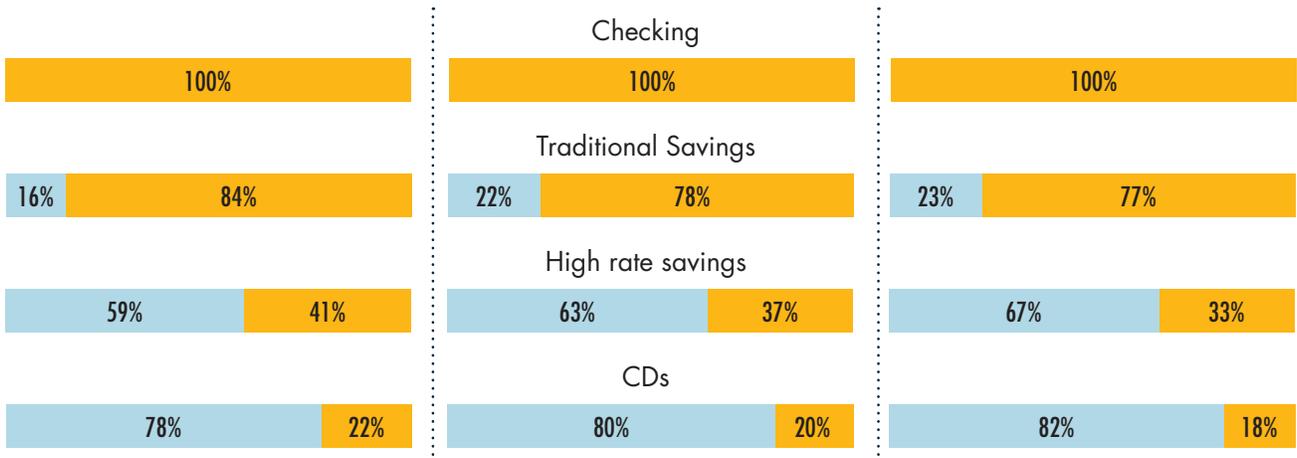


## RATE SENSITIVITY OF BALANCES (TOTAL PORTFOLIO)

● Rate-sensitive ● Rate-insensitive ▨ Unknown (brokerage)



## PERCENTAGE OF RATE-SENSITIVE VS RATE-INSENSITIVE BALANCE BY TYPE OF PRODUCT



Q9, 15, 22, 29, 38

Note: Other/I don't have a plan not included into above framework

Source: FDIC, Novantas Analysis

*Are*

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*All Savers  
Created Equal*



Five categories of savers emerged from this research, characterized by unique behavior and attitudes. Banks that identify these traits can target the consumers accordingly, developing products and features for different needs.

More than three-quarters of “careful savers” and “active shoppers” save money every month — far more than the “anxious” or “traditional” saver. Meanwhile, “traditional savers” aren’t sensitive to rate.

### BEHAVIOR & PREFERENCE STATEMENTS

		I save money every month	I like to keep all my money in one place	I move money between accounts to get the best rate	I don't pay attention to the rate I am getting on my savings
<p><b>CAREFUL SAVER</b></p>	Checks the amount they have saved often.	83%	66%	20%	80%
<p><b>ACTIVE SHOPPER</b></p>	Enjoys saving money.	83%	23%	95%	4%
<p><b>TRADITIONAL SAVER</b></p>	Dependent on physical location.	11%	84%	2%	98%
<p><b>ANXIOUS SAVER</b></p>	Only keeps savings at a traditional bank.	17%	37%	69%	31%
<p><b>BANK-DETACHED SAVER</b></p>	Very comfortable with an online-only provider.	48%	36%	12%	88%

Base: careful savers (N=920), active shoppers (N=696), traditional savers (N=727), anxious savers (N=356), bank-detached savers (N=308)

More than half of savers in all segments often worry about having enough money. “Careful” savers worry less than the other groups.

Savers like to exhibit control, as evidenced by the fact that most prefer to transfer money manually rather than using automatic transfer.

ATTITUDE STATEMENTS	CAREFUL SAVER	ACTIVE SAVER	TRADITIONAL SAVER	ANXIOUS SAVER	BANK-DETACHED SAVER
I never worry about having enough money	48%	45%	4%	0%	25%
I often worry about having enough money	52%	55%	96%	100%	75%
I enjoy saving money	100%	100%	49%	41%	84%
I find saving money to be stressful	0%	0%	51%	59%	16%
I am comfortable banking with an online-only provider	26%	81%	29%	48%	100%
I would never consider a provider without physical locations	74%	19%	71%	52%	0%
I would only ever keep my savings at a bank	96%	65%	93%	79%	21%
I would consider keeping savings with another trusted company (Facebook, Google, Amazon) if they offered a savings account	4%	35%	7%	21%	79%

### BEHAVIOR & PREFERENCE STATEMENTS

I save money every month	83%	83%	11%	17%	48%
I save money when I can	17%	17%	89%	83%	52%
I check the amount I have saved often	90%	99%	87%	93%	86%
I never check how much money I have saved	10%	1%	13%	7%	14%
My savings are set up as an automatic transfer	33%	29%	19%	21%	38%
I transfer money to my savings manually	67%	71%	81%	79%	62%
I often move my savings between accounts	15%	55%	15%	55%	12%
I tend to keep my savings in the same accounts	85%	45%	85%	45%	88%
I like to keep all my money in one place	66%	23%	84%	37%	36%
I like to spread my money out across providers	34%	77%	16%	63%	64%
I maintain a monthly budget	66%	74%	55%	71%	55%
I don't set a budget for myself to follow	34%	26%	45%	29%	45%
I spend a lot of time researching financial products	43%	96%	18%	74%	58%
I am not sure how to research different financial products	57%	4%	82%	26%	42%
I move money between accounts to get the best rate	20%	96%	2%	69%	12%
I don't pay attention to the rate I am getting on my savings	80%	4%	98%	31%	88%

Base: careful savers (N=920), active shoppers (N=696), traditional savers (N=727), anxious savers (N=356), bank-detached savers (N=308)

The research also revealed interesting data when analyzing savings by balance size. The higher the savings balance, the more open consumers are to online-only providers. But fewer than a third of all balance segments would consider a savings account at Facebook, Google or Amazon.

Customers with the smallest balances don't pay attention to rate. On the other hand, the biggest savers move their money between accounts to get the best rate.

<b>ATTITUDE STATEMENTS</b>	<b>\$2K-\$10K</b>	<b>\$10K-\$50K</b>	<b>\$50K-\$100K</b>	<b>\$100K+</b>
I never worry about having enough money	19%	33%	42%	57%
I often worry about having enough money	81%	67%	58%	43%
I enjoy saving money	72%	83%	90%	91%
I find saving money to be stressful	28%	17%	10%	9%
I am comfortable banking with an online-only provider	46%	49%	61%	61%
I would never consider a provider without physical locations	54%	51%	39%	39%
I would only ever keep my savings at a bank	82%	79%	72%	72%
I would consider keeping savings with another trusted company (Facebook, Google, Amazon) if they offered a savings account	18%	21%	28%	28%

### **BEHAVIOR & PREFERENCE STATEMENTS**

I save money every month	45%	57%	70%	70%
I save money when I can	55%	43%	30%	30%
I check the amount I have saved often	91%	93%	95%	89%
I never check how much money I have saved	9%	7%	5%	11%
My savings are set up as an automatic transfer	28%	28%	26%	28%
I transfer money to my savings manually	72%	72%	74%	72%
I often move my savings between accounts	29%	27%	38%	31%
I tend to keep my savings in the same accounts	71%	73%	62%	69%
I like to keep all my money in one place	62%	50%	40%	36%
I like to spread my money out across providers	38%	50%	60%	64%
I maintain a monthly budget	67%	65%	61%	53%
I don't set a budget for myself to follow	33%	35%	39%	47%
I spend a lot of time researching financial products	49%	55%	74%	72%
I am not sure how to research different financial products	51%	45%	26%	28%
I move money between accounts to get the best rate	29%	41%	57%	61%
I don't pay attention to the rate I am getting on my savings	71%	59%	43%	39%

\$2k-\$10k (N=1008), \$10k-\$50k (N=1491), \$50k-\$100k (N=157), \$100k+ (N=351)

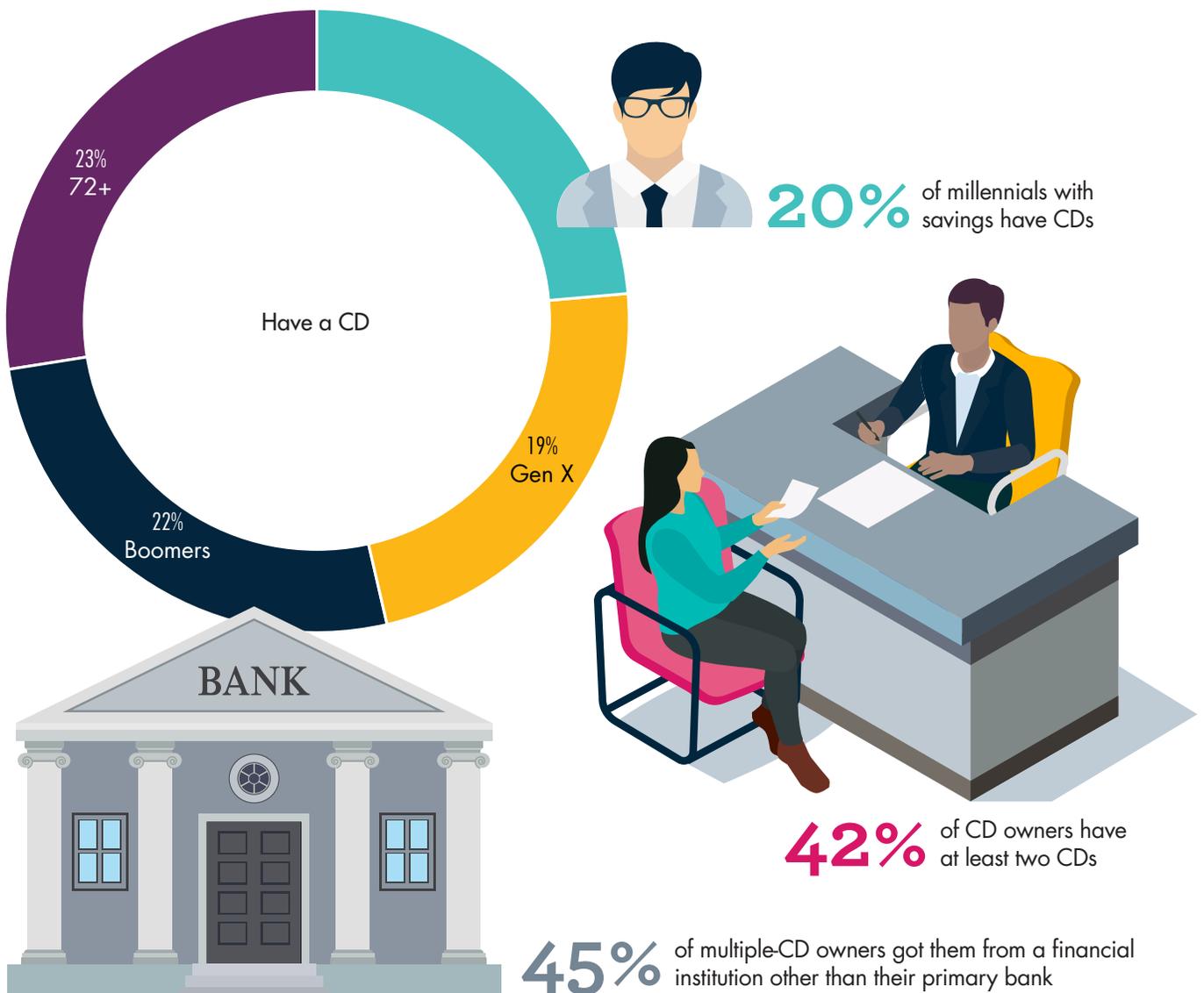


*Busting*

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*A Myth*

After a long slumber, CDs have become more popular. Even millennials consider them to be attractive.



# *About*

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# *the Research*



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3,007 household financial decision-makers across the U.S.

Minimum of \$2,000 in current savings balances

<\$10k: 1003 respondents

\$10k — \$50k: 1500 respondents

\$50k — \$100k: 158 respondents

\$100k — \$250k: 162 respondents

\$250k+: 184 respondents

15-minute survey administered online

Fielded February 14 — February 27, 2019

# About

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# CBA & Novantas

**The Consumer Bankers Association (CBA)** represents America's leading retail banks. We promote policies to create a stronger industry and economy. Established in 1919, CBA's corporate member institutions account for 1.7 million jobs in America, extend roughly \$4 trillion in consumer loans and provide \$275 billion in small business loans annually. Follow us on Twitter @consumerbankers.

**Novantas** is the industry leader in analytic advisory services and technology solutions for financial institutions globally. We create superior value for clients by providing information, analyses, and automated solutions that improve revenue generation, growth, credit quality and profitability. Our experienced team understands banking industry evolution, advances global thinking to meet these challenges, and brings the expertise and tools needed for our clients to excel.

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