# Negotiating Deposit Rates


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The question is a difficult one. In any environment where depositors perceive that rates are negotiable, there will be some segment of the market which will expect the financial institution to move away from 'posted' deposit rates to some other rate that favours the customer. Most deposit-takers encounter this behaviour.

Over time, such behaviours become institutionalized and the need to compete on price becomes part of the psychology of selling as well. Institutions begin to see price as the major competitive tool, rather than a competitive tool.

The Deposit Buying Process

It is helpful to examine the deposit buying process to understand exactly what is being bought and sold in any deposit transaction:

A depositor seeking to place funds is actually looking for some combination of; Yield| Liquidity| Risk| Relationship| and Convenience

These factors are in no particular order.

Each depositor has some combination of these five factors that is optimal given needs at the time of deposit and each of these influences - to some extent or other - the decision to place a deposit.

Let us examine each of them in turn:

## Yield

This is the one that is most frequently pointed to by sales staff as the driver in the buying process. 'I lost this deal because my competitor had a better rate' or 'our rates are below those across the street so we're not competitive.'

Is yield a major factor in the deposit-buying process?

Yes. Sometimes.

We must recognize that for some segment of the marketplace, price is a determining factor, and those deposit dollars will be placed where they earn the highest return. For such persons, other factors like liquidity or convenience have little to no impact. However, other factors may come into play as well - if the customer has to drive ten miles to a competitor offering a better rate, then that rate may appear somewhat less attractive. It all depends on the customer.

## Liquidity

The pricing of term products has always assumed that liquidity was integral to the pricing process. The normal, upward-sloping yield curve creates the typical 'the longer the deposit, the higher the rate' pricing strategies that have existed for many years in a normal economic environment.

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Each depositor will have liquidity needs as well, varying from 'I don't care' to 'I don't know when I will need this money, so I had better be careful'. From these varying needs has emerged products with differing yield and liquidity options which attempt to meet the needs of the widest number of customers.

### Risk

We use the term 'risk' here to mean 'safety'. Every depositor at some point - whether consciously or unconsciously - considers the possibility of placing a deposit which may be lost for some reason. While deposit insurance schemes (e.g. FDIC in the U.S.) help alleviate some of this for smaller depositors, larger depositors still face this issue and it is not at all uncommon to see deposits spread across many institutions to minimize the possibility of loss.

Risk can of course refer to such things as liquidity risk (the risk that the depositor will be unable to access the funds when needed) or interest rate risk (the risk that rates will move up after a fixed term deposit has been placed), but for our purposes we focus on the possibility of loss.

### Relationship

Some deposits are placed because a good relationship exists between the customer and the financial institution. All other things being equal, the deposit will go to Bank X because I like them and they treat me well'. This factor is frequently misunderstood when deposits are lost due to price. Not all depositors are price-driven. Significant deposits are gathered at standard rates, without the need to pay premiums and this would not be so if all depositors were price-sensitive.

The real skill of the sales person revolves around the ability to identify what is most important to the depositor and sell to those needs. It is not always necessary to lead with price.

### Convenience

Not all depositors are interested in a relationship, but they do need a place to keep their funds. Frequently, this will be a nearby institution for reasons of simple convenience. If other factors are not in play (e.g. a need to maximize interest revenues), then deposits will be placed at a convenient location.

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