Branching Out: A Retail Banking Podcast Series

Season 2, Episode 6: Behind the Numbers: Retail Banking & Market Performance Trends

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Bill Dworsky: Hi, everyone. Welcome to Branching Out, the podcast where we explore trends in retail banking through conversations with leaders from across the financial ecosystem. I'm your host, Bill Dworsky, and today, I'm excited about a conversation on performance trends, banking analytics, and all things retail in the marketplace. To explore the topic, we're going to have a conversation with Nathan Stovall, who's the director of Financial Institutions Research at S&P Global. So, Nathan, thanks a bunch for joining me. Really appreciate your time.

Nathan Stovall: Thanks for having me. My pleasure to be here.

Bill Dworsky: So, I'm curious to start, can you just share a little bit about your role at S&P, and what does a day in the life kind of look like for you?

Nathan Stovall: Sure. So, I lead our Financial Institutions Research team, which is a team of 24 individuals covering US banks, US insurers, and then global banks. I started with what was then SNL Financial back in 2003 on our news team covering US banks. I thought I'd be here six months, and I fell in love with the business and the company, and we sold to S&P back in '16, and I've been covering the space all that time.

Primarily, we write data-driven work, a lot of it in partnership with our news team, but we also produce a lot of proprietary research. And I produce my own, and I will be working on that. But I also work with our teams in trying to set the strategy as well as individual projects, helping them dig into the data and still talking with our news folks on a daily basis. We have a morning call (it's one of my favorites), what's happening that day and what's the best way we can tackle it, and what's the best way my team can help them tell the story and use our data to do so.

Bill Dworsky: Awesome. Well, plenty of events recently and upcoming—plenty of excitement. To start with, I was hoping we might start with deposits and number of hot topics related to retail deposits and just more generally deposits across the banking system. S&P recently released, I think, its refresh on ranking top deposit franchises across the board, which caught my eye. Can you describe a little bit of a background on that—kind of the approach that you all have taken and any kind of highlights or takeaways that you thought about or were top of mind for you based on the recent review?

Nathan Stovall: Sure. So, starting off with how they came about, we've done performance rankings for the industry, ranking banks by different asset groups for some time. And earlier this year, coming into '25, we thought, "Why don't we do this for the deposit business?" It's the true value of a franchise. We've got lots of great granular data, so let's do that and create a separate ranking purely just based on the deposit business. And we did it. We first broke up the rankings, the three different groups—ranking banks with less than $3 billion in assets, ranking those with $3 billion to $10 billion in assets, and then over $10 billion—with the idea that their business models might differ, so we want to try to compare more apples to apples. And then effectively what we do is we create a performance score based on eight different metrics. They all have different weightings, or most of them do, the biggest of which non-interest-bearing deposit concentration at 20%—the best deposits, everybody wants them. So, if you have a lot, you're going to do better in the ranking.

But the long and short of it was tech-forward franchises, digitally focused franchises, tend to do pretty well, and particularly those who are doing it in the commercial arena, less so on retail. Because what they are doing is they're offering easy-use, better platforms for their commercial banking customers, and many of them actually don't even have a lot of fees to go with it, and they're able to gather a tremendous number of non-interest-bearing deposits, and a lot of other things fall into place if you do that.

The other big takeaway was a lot of them ended up being targets, which is not that surprising. You got a good deposit franchise, somebody might want to buy it. So, those were my two very high-level ones, but it was pretty consistent in January, it was pretty consistent when we ran this back leading up to a deposit-focused conference that we just held in Denver last week.

Bill Dworsky: Awesome, love that. Let's come back to the M&A topic in a bit. Definitely want to touch on that and pick your brain a little bit on kind of recently. Yeah, a couple of the themes that you referred to—especially related to the efficiency metric that you all created—really resonate. I think we've spent a lot of time recently talking to clients about the value of a net-new deposit customer and how to go about acquiring them and/or taking share, specifically some of the ways to evaluate primacy and stickiness of customers as well. Just given, I think, the increasing comfort of customers to hold deposits at more institutions as they do rate shopping, as they become more comfortable with digital-only models, etc., it's definitely timely and important for banks of all shapes and sizes, so to speak.

Nathan Stovall: And when you're doing that, are you looking (and I'm guessing this is it), you're looking at when did the money come in, how long did it stay, and was there a campaign associated with that? Was it rate? Was it promotional? Things like that?

Bill Dworsky: Yeah, yeah. I mean, depending on the go-to-market and customer acquisition strategy, it's more or less challenging to kind of attribute specific dollars spent to investments etc. in customer acquisition. But especially for things like performance marketing channels, where you're pretty robust in being able to pay for performance or "buy new accounts" if you will, than thinking about what's the value of this new deposit account, what's my expected customer lifetime value, and how much am I willing to "pay" or what's my marketing ROI going to be in this channel?

I think, Nathan, to me, it's a fascinating topic, and it's really kind of heart of the retail business as well as obviously banking commercial as well. I think it's a great thing to keep an eye on watch and evolve as you all have done. You mentioned the conference that you just had. I'm curious, were there any particular highlights, takeaways? I know you had a number of different institutions and representatives there—any things that kind of stood out to you?

Nathan Stovall: Sure. And what we were just talking about was one of them—that you can't just look at one metric when evaluating the cost of customer acquisition; you look at every single thing. And by the way, you'll get different customer behaviors depending on what you're doing. And one of the biggest ones was don't lead on rate. And I've heard that for years, but what's interesting about it, is that if you look through this last cycle, it appears that's what most banks did.

The other thing, though—and you see this in our rankings with those who are at the top of the list—is lead with products or niche strategies. And that could be a variety of things. Tie your customer into multiple products: "We'll give you a better rate on your loan if you give me that non-interest-bearing deposit. I'll be more competitive than the guy next to you because I'm not going to pay you 2.5% for the deposit, so instead of charging you 9% of the loan, I'll charge you a 7%." That math works, but it's funny you don't always hear that. And getting more of the wallet share, creating sort of the moat. As you talked about, people being willing to have deposits at multiple banks. It maybe is a little bit different for a commercial customer, but it could be the same principle that if you really are incentivizing the customer to keep more products with you, that that customer will be stickier. And in those same people—and I thought this was interesting, I might have mentioned at the outset, but "don't nickel and dime them" was another line that we heard—that people just hate fees, and that you're better off paying them a lower rate and not charging them a fee.

Bill Dworsky: Yeah. I think especially on the last one, the last two to three years, I think we've kind of turned the page or entered into a little bit of a new chapter of expectations when it comes to things like overdraft and other related fee types on deposits. I'm curious, did you talk much about branch? I know obviously our podcast is Branching Out, so I'm a little bit by default required to ask about branches and for us to talk about branches. But I know we've seen some interesting divergence of strategy among regional and super-regional banks when it comes to branch.

Some organizations are continuing to invest significantly in net-new openings, expansion; others are clearly going the other way looking to consolidate and close and shrink the footprint, trying to be more digital. While a third category, I think, are more focused on strategic repositioning—closing in some cases, opening in other areas, as they look to move toward attractive geographies. But I'm curious, any things that you're seeing, hearing, or thinking about on the branch footprint front?

Nathan Stovall: Certainly, and we did talk about it, and I think you framed it well—those three strategies. Might make sense to start broadly. We got the SOD data on Friday, and what we saw year over year through June 30 across the industry was a decline of 0.8%. We're down to just over 76,000 branches, which sounds like a lot, but if you go back to 2019, six years ago, we were at 86,000. So, we've lost 10,000 branches in the last six years. That's a big number. The big guys, they decreased 1.4% in that time frame, but there are variants in there. And while you're seeing some of the others trim, one of the takeaways we had from that event was even among some digitally focused banks (one's Esquire, I'll give you that example).

They focus largely on the legal profession and they have one branch in New York. They have a big business in LA, and now, they've opened a branch. They think they need to have a flag there. And maybe it's not even so much because of transactions; it's still that comfort level that retail and commercial customers want to know that there's a human. And that came up a lot.

Bill Dworsky: There is a bank there.

Nathan Stovall: There is a bank there, yeah. And so, you could call it a billboard, but I think it's more than that. I really think you need to feel like you have physical access if you need it. Call it a safety net!

Bill Dworsky: I think the search for the optimal sort of thin branch/hybrid lightweight branch strategy—it's one that a number of organizations I think are pursuing. One of the things that we often see that I find really interesting is that even in areas where the branch itself may not be top-decile performing in terms of new customer acquisition or deposit gathering, they actually see upticks in digital acquisition and digital engagement performance from customers in the same area.

Nathan Stovall: That's interesting.

Bill Dworsky: So, the branch can often function as—you mentioned "billboard"—as that, even in cases where the branch itself doesn't necessarily see as high customer activity as you might otherwise expect. So, it's a tough nut to crack. I don't think any retail bank has really fully solved the challenge of mix and channel, but it's one that I'm continuing to watch.

Nathan Stovall: And we heard a lot about omnichannel, too, across the board—so not even just digital versus branch, but also even mailers And there were several banks in our audience (that) said that they've run studies on campaigns, and when they did one individual campaign, yeah, they had variances and some did better, but when they did them combined, it was far more effective, which kind of speaks to that.

Bill Dworsky: Yep. It's the kind of "surround sound" effect. So, we're in September here, we're getting to Q3 wrapping up. So, that means it's going to be earnings season here, coming soon for the quarter and then for the year not too far after that. Any particular things that you're watching closely, curious about, on the lookout for, when it comes to the next round of bank earnings, either P&L-wise or balance-sheet-wise?

Nathan Stovall: Both—because I note down the stuff I think about all the time. Yeah, a bunch of stuff. I mean, one, first and foremost, we're talking a lot about deposits. How quickly are we moving since the Fed cut? Loan yields have held up, for the most part, in part because we've seen five- and 10-year holding up. So, do we still continue to get margin expansion, reinvesting securities at higher yields? That's something we're looking for. And then the other two big ones: loan growth. Are we getting it? And is it still that other bucket—loans to non-depository financial institutions driving it? The H.8 data seems, yes, it's driven it most through the first six months. That isn't necessarily what you think of what most banks are lending towards.

So, it's going south side, the traditional system to other lenders. What does that look like? And then credit: Is it holding up? And it has. It's been surprising. Shoe two, delinquencies declined for C&I, CRE, and cards. Kind of amazing. Kind of amazing. But can that last? And that's really what I'm wondering.

Bill Dworsky: That is one that's on my mind too. I'm always on the lookout or thinking about what's going to be the straw that "breaks the back," so to speak, because there always seems to be one vertical, one asset class, one lending kind of subsegment that tends to be the contagion point, if you will, or the one where you start to see the delinquency and loss rates rise pretty quickly, and then it ends up having second-, third-order collateral damage effects across the portfolio. I mean, a couple that are on my mind right now are the student lending vertical, and given all the sort of uncertainty around the student-lending edifice going forward, is that going to be something that starts to impact the individual consumer's finance, again, for that demographic and creep into other areas?

Nathan Stovall: Sure. And even though—that's a great one to talk about because even though banks don't own a lot of student loans anymore, you're seeing those delinquencies absolutely spike. So, that's a bellwether of the consumer. We know it's the higher-end earnings holding up spending, but if the consumer craters, we've got a problem. Even if I don't have a lot of consumer loans, it's 75% of our economy.

Bill Dworsky: Well, like you were saying a little bit earlier, performance either on the upside or the downside can be something that ends up flowing into M&A activity. Whether it's a great depository institution, or in some cases, ones that may be struggling on the performance front being more likely to be targeted. Any particular things that you are kind of noticing, thinking about, etc. when it comes to banking M&A? I mean, from my standpoint, we're seeing some much more richly priced deals with high valuations relative to just about any metric you can pick, whether it's deposits or total assets or otherwise. Obviously, there's just more activity in general, in terms of deal volume, some larger deals that have been announced. But anything that's raising your eyebrows on the banking M&A front?

Nathan Stovall: Sure. Agreed on all fronts. You know, the window's open, and so I feel like you're seeing acquirers move because how long will it stay open? And I think it's very reasonable because this regulatory environment is dramatically different. You've got two Category I–IV banks. We hadn't seen one of those before. And you're seeing stuff bid up, and where there is perceived scarcity value, and you mentioned deposits—that being a big driver. And we did a study looking at deals over a long span. And if you look at those franchises with higher non-interest-bearing deposit concentration, higher than the industry median, and the quarter four they sold, they sold for 30 percentage points more on price tangible books. So, a huge spread, and that is held for some time, and it's true with the publicly traded cohort as well. But bigger banks in the arena, deposits still commanding valuation. But one of the others is serial acquires returning. We hadn't seen that. You couldn't do multiple deals, and so you'd always hear people talk about, "Well, I don't know if I'm going to get another bite of this apple, so it's got to be right."

I'm not saying people are being willy-nilly, but if you know you got a chance to do two deals in a year, if somebody comes available and you go, this is a bolt-on, you're much more likely to do it today than you would've otherwise. And we've seen at least, I think, it's nine banks who've announced two deals in a 12-month period. And that is a huge change from what we've seen in the last four years. So, I feel like it could be a pretty busy close to the year, and you might see some big splashes early next year. And yeah, you've had some trepidation around a handful of transactions, but the market's largely supported it too. So, that would be something that would stand in the way or big credit blips coming down the horizon—and we can talk about that—but for now, it seems like a Goldilocks period where regulatory support, some currencies are back in the stocks, and investors are not throwing cold water on it completely.

Bill Dworsky: Right. I'll be curious to see who ends up being perceived or in reality the real ones that benefit the most, the ones that are most successful coming out of this (if there is kind of a large-scale bump in M&A), and who may have some buyer's remorse, so to speak.

Nathan Stovall: For sure. And there's a price for everything, and you could pay too much. We're not seeing pricing going completely out of whack. And you still hear people talk about what's the earn back to the tangible value dilution. But there does seem to be some appreciation in the investment community of that comment of the window is open, scale's valuable, you feel like you might need to do something. But of course, somebody's going to get that wrong.

Bill Dworsky: So, Nathan, we've covered a lot of ground here. We've talked deposits, we've talked branches, we've talked credit, we've talked performance, we've talked M&A. Anything that you feel like we haven't talked about or that you're just looking ahead to on the retail banking front?

Nathan Stovall: Yeah, I mean, I think two things. One—and that could include working with guys like yourself, and I'm serious about it—it's not time to really sit on your hands in my mind because I think you'll get regulatory support, investor support for it, and the operating environment will allow for it. It doesn't have to be through M&A.

People say the window's open; I think the window is open organically on that too. But I'll offer something on the other side that's a little bit negative too. As long as I've been doing this, I don't think we're early cycle. So, I've been saying it for … I'm going to be a stop clock right twice a day because it's probably too early. But at the same token, we've been saying for some time, being mindful of what you're doing, think about serving your best customers, really scrutinize that bottom 10%. Because I don't know that you're going to get rewarded that much for that 1% extra of organic growth today, and the guy who does it instead will get burned, and then either customers will be available or they'll go on sale. So, that's my long mantra in banking. It's good today, but we will have a cycle.

Bill Dworsky: So, the world turns in banking here. It's always a cycle somewhere ahead.

Nathan Stovall: That's right.

Bill Dworsky: Nathan, this has been a great conversation, really wide ranging, thanks so much for your time on it. And thanks to our listeners as well for tuning in. Thanks, as always, to our friends here at Hangar Studios. For folks who are looking to go deeper on some of the topics we talked about today, you can check out the podcast webpage online at deloitte.com/branchingout. We have short show notes and some relevant links from the conversation today. As always, if you have ideas or suggestions, feedback about the show, just drop us a note. It's branchingout@deloitte.com, and we look forward to exploring the future of retail banking again with you soon.