Where ALM Falls Short: A Data-Driven Look at DDA Behavior

Behavioral insights from 20M+ checking accounts

Greg Wempe | Kasasa

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The Role of Checking in Bank Funding

- Core deposits remain the **primary funding engine** for community banks
- Non-maturity deposits often represent **50–70% of total funding**
- DDA balances are typically forced into two categories
  - NOW/Interest Checking – 15-23% repricing median on -100bps; 4-5.25 year life*
  - Non-interest bearing – 4.17-5.04 year life*

*OCC Interest Rate Risk Statistics Report – Spring 2024

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The Modeling Gap

What Models Assume

- Static decay assumptions
- Historical deposit beta estimates
- Limited portfolio averages
- Asset-based behavioral segmentation

How Customers Behave

- Digital banking enables instant transfers
- Faster payment rails (FedNow, RTP)
- Unprecedented rate transparency
- Increased liquidity mobility

“The assumptions we inherited may no longer match how depositors actually behave.”

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The Average Checking Account Doesn't Exist

Behaviorally, checking deposits are three very different funding sources.
To test that, we analyzed data from 20M+ accounts nationwide.

THE DATA

Behavioral Dataset: 20M+ Checking Accounts

Multi-year observation window across community financial institutions nationwide. Fully anonymized and aggregated. Instead of modeling deposits by product type, we modeled them by behavior.

Transaction Velocity
Outflows vs. stable balances

Rate Sensitivity
Runoff after rate changes

Dormancy
90-day inactivity patterns

Payroll Anchoring
Relationship stickiness

Account Lifespan
Balance persistence over time

"Instead of modeling deposits by product type, we modeled them by behavior."

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Transaction Velocity: Defining Stability

Velocity = Monthly Outflows / Average Balance

High Velocity
Operating cash / transactional balances
Lower funding stability

Low Velocity
Persistent, stable funding
Higher ALM value

Checking accounts contain both operational and stable balances — often within the same account type. Velocity helps us separate them.

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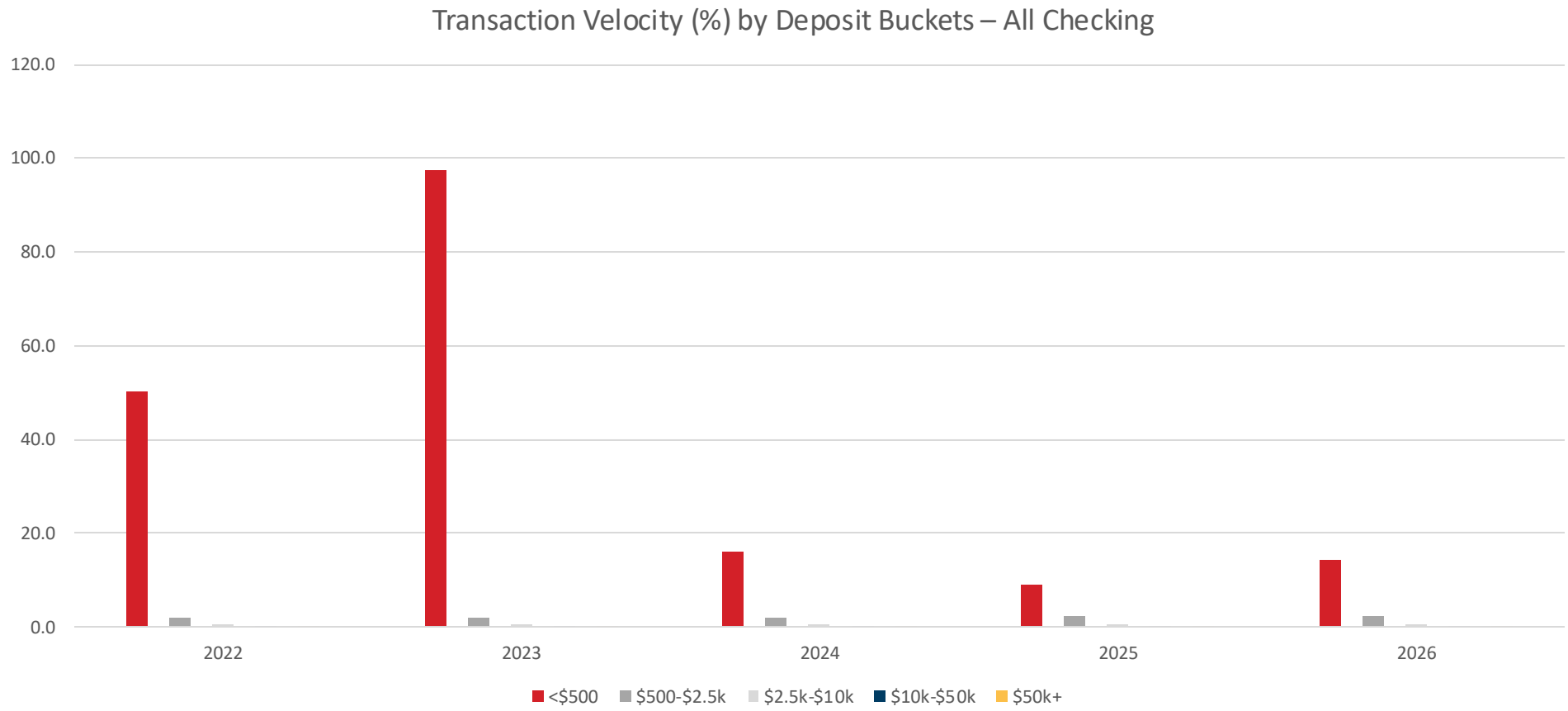
Velocity Distribution



Transaction velocity is dominated by sub-$500 accounts.

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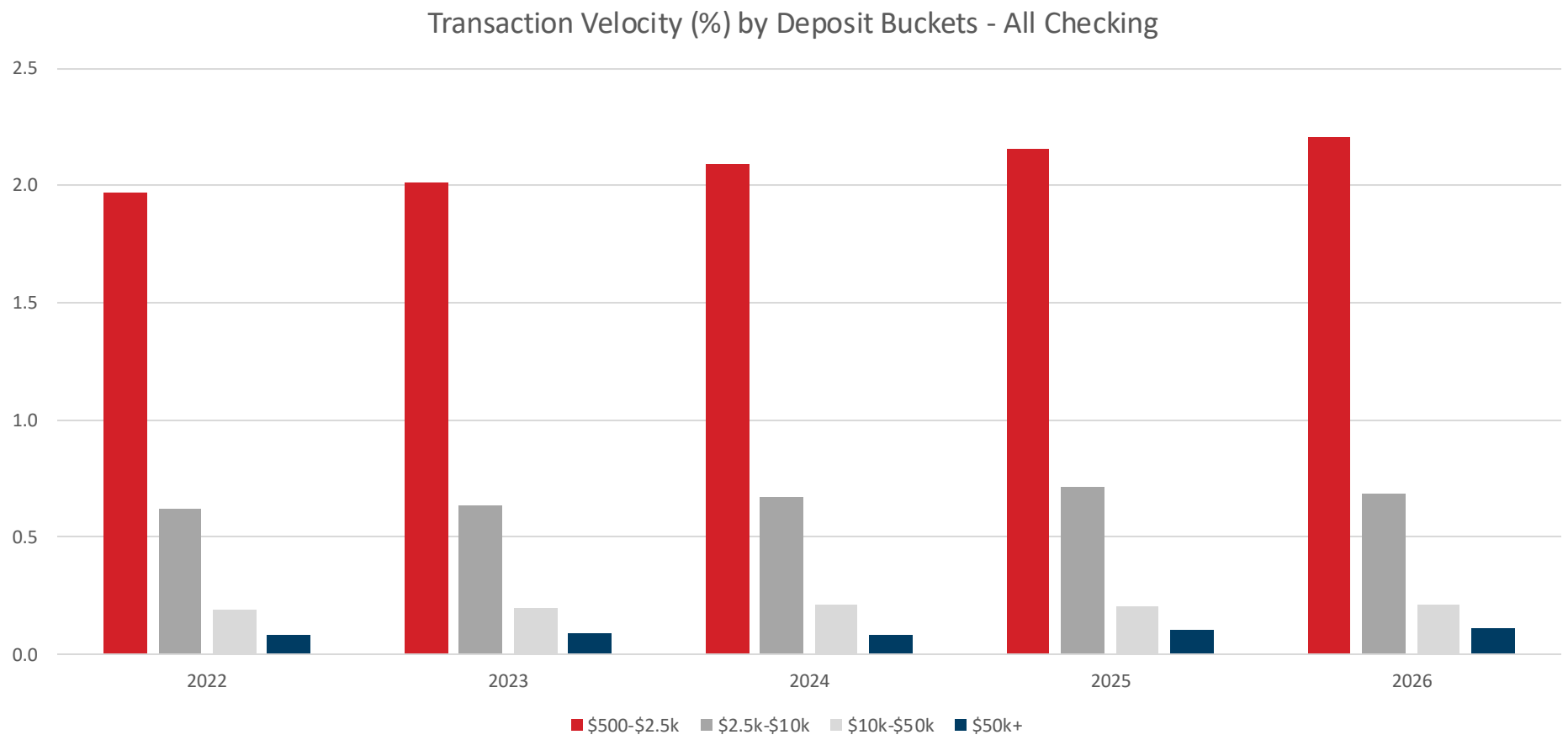
Velocity Distribution – Greater than $500 Balances



Transaction velocity is negligible above $500 balance.

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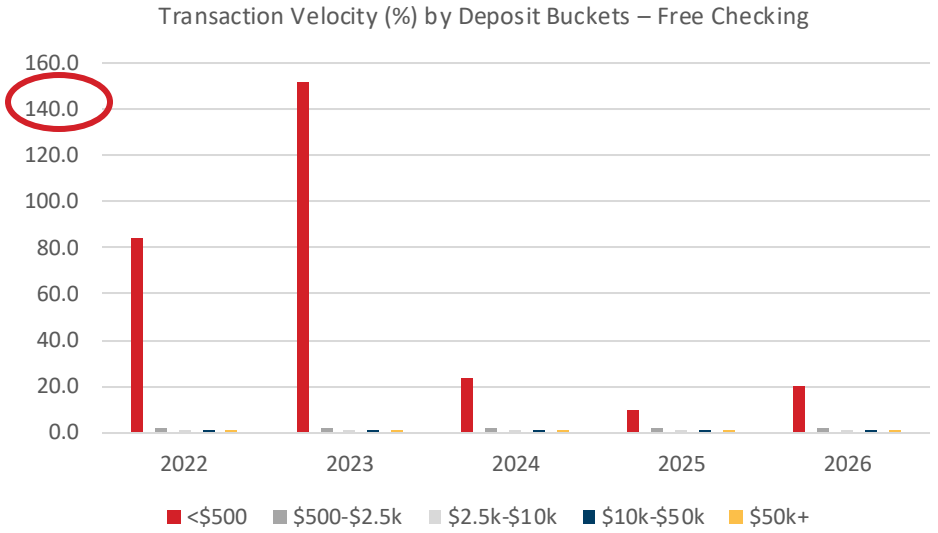
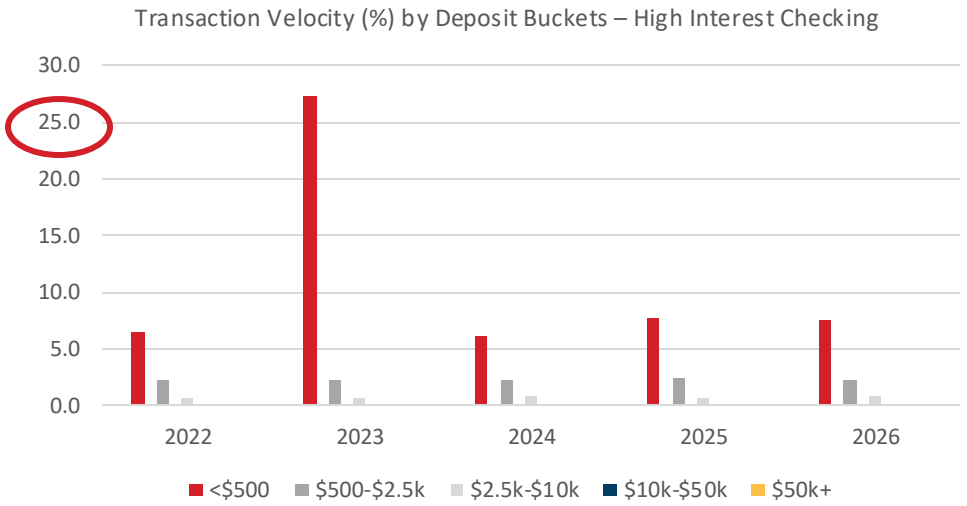
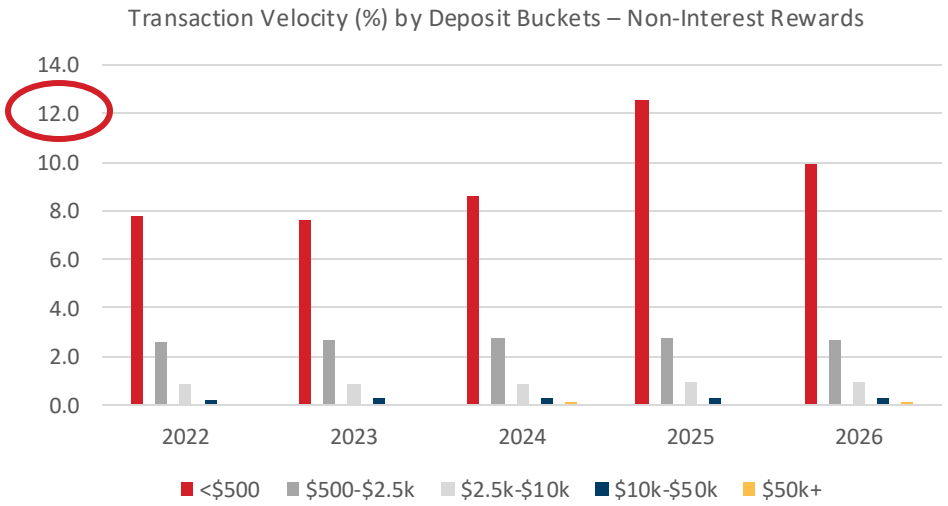
Velocity Distribution – By Checking Product Type







Transaction velocity declines significantly in rewards-based checking accounts.

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Rate Sensitivity: Beyond Deposit Beta

Traditional ALM focuses on:

- Deposit beta (pricing elasticity)
- Repricing rate assumptions

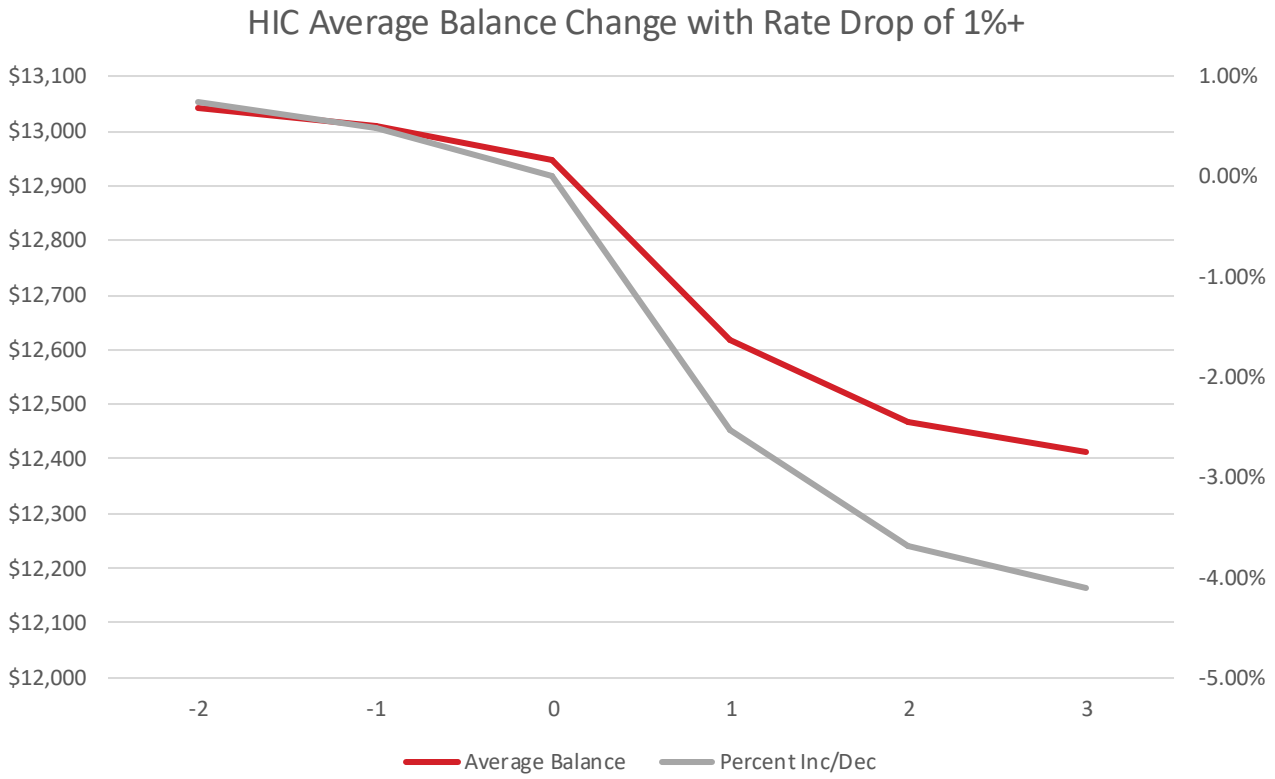
But behaviorally:

- Customers respond through **balance movement**

Our metric:

- Deposit runoff in 3 months after a rate reduction, as % of total deposits

"Funding risk is minimal."



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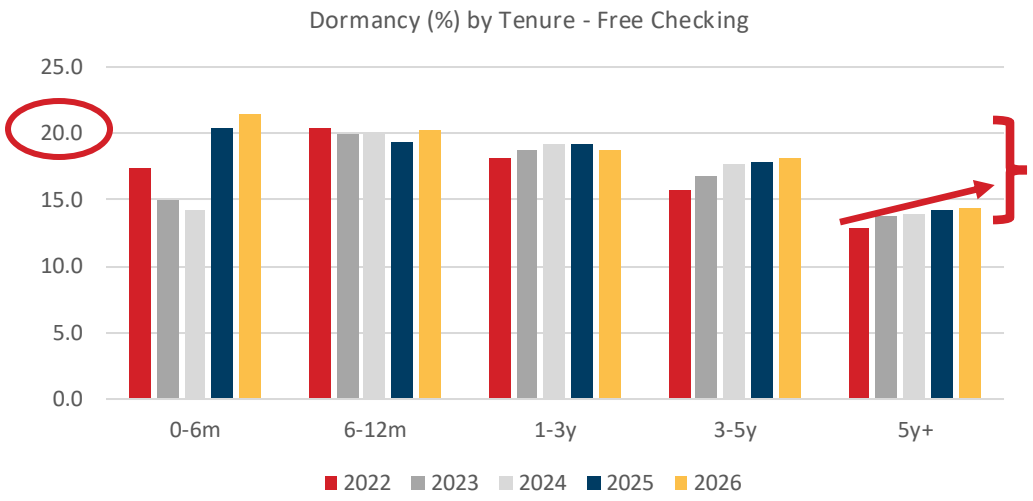
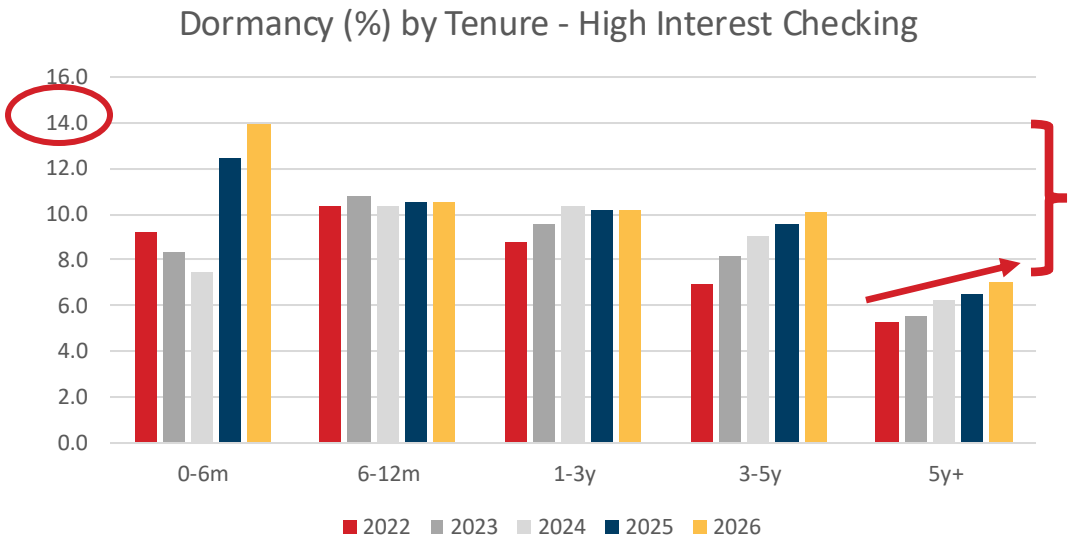
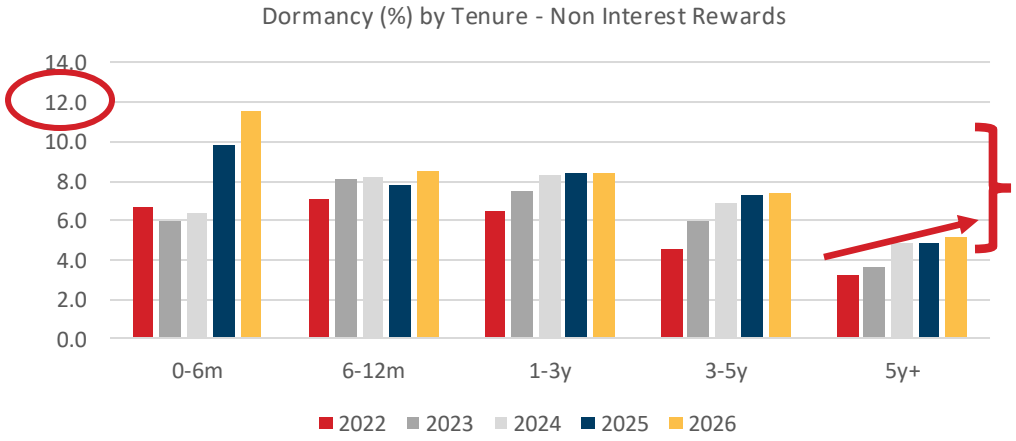
Dormancy: Hidden Risk or Stored Value?

Dormancy = 90 days with no ACH or POS activity, as a % of overall average deposits







*Dormant balances often represent **stored value**, not active liquidity.*

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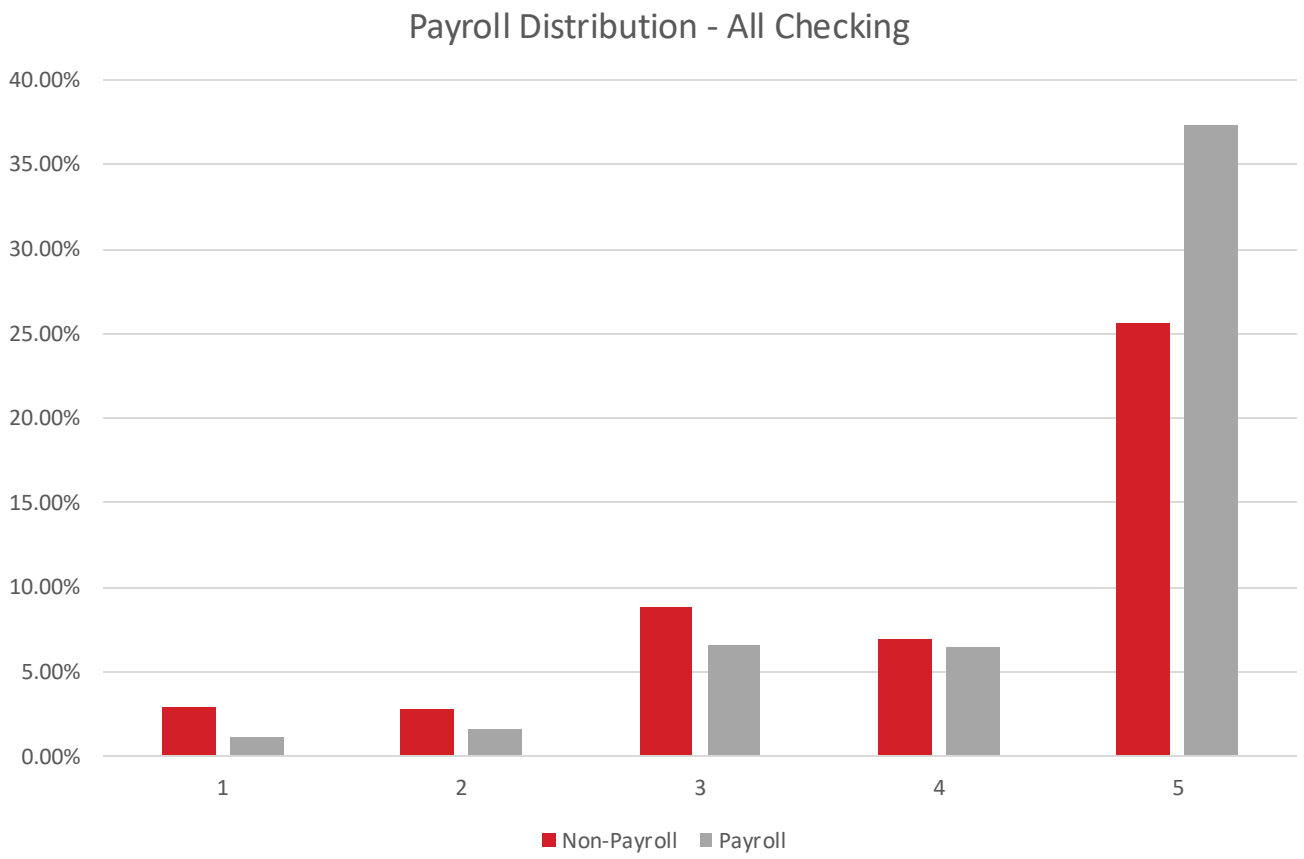
Payroll as a Relationship Anchor

Payroll = $200+ ACH credit at least once every 30 days



Key Findings

- Payroll accounts show **higher retention**
- Stronger **relationship stickiness**
- Materially **lower runoff risk**

"Behaviorally, payroll relationships behave more like long-term funding."

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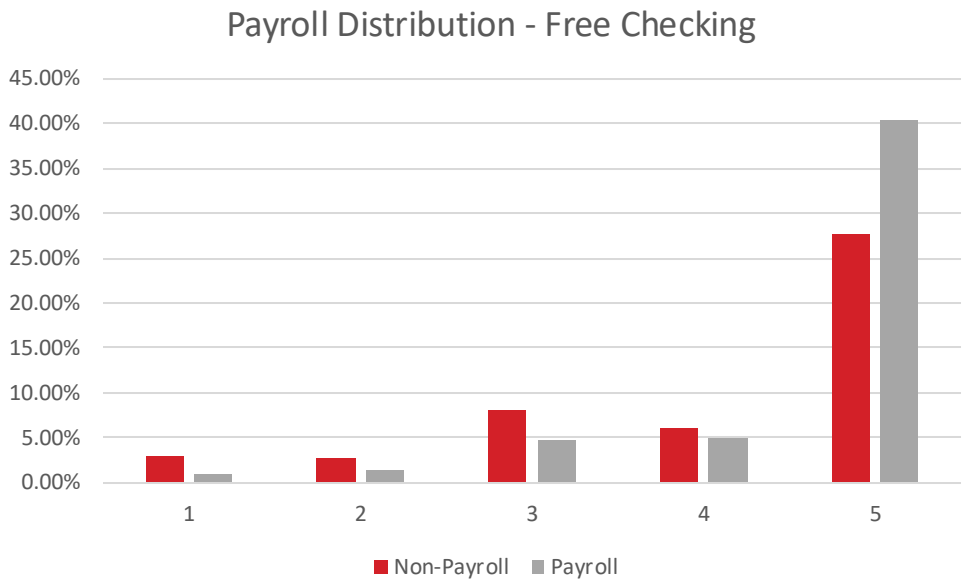
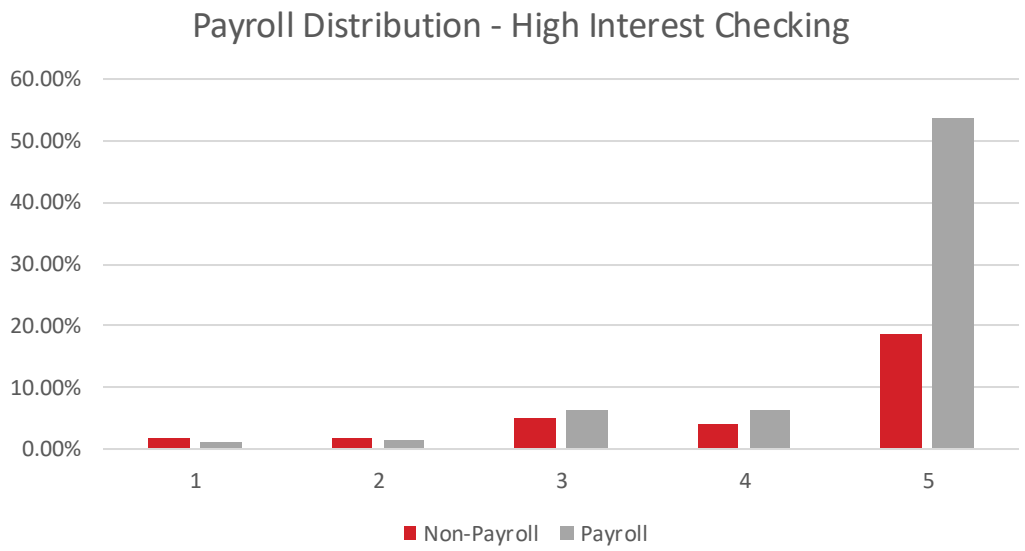
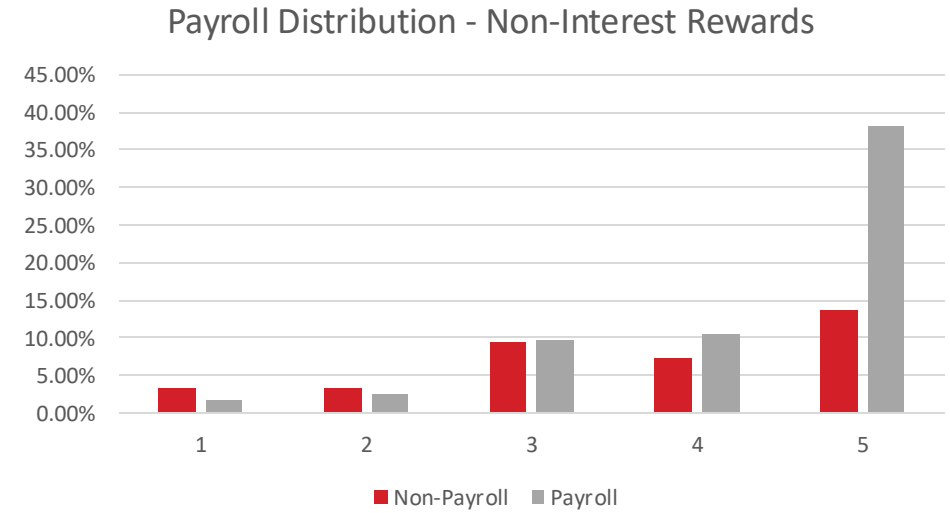
Payroll as a Relationship Anchor by Product Type







HIC accounts drive significantly higher payroll-associated retention, which NIR trails Free Checking.

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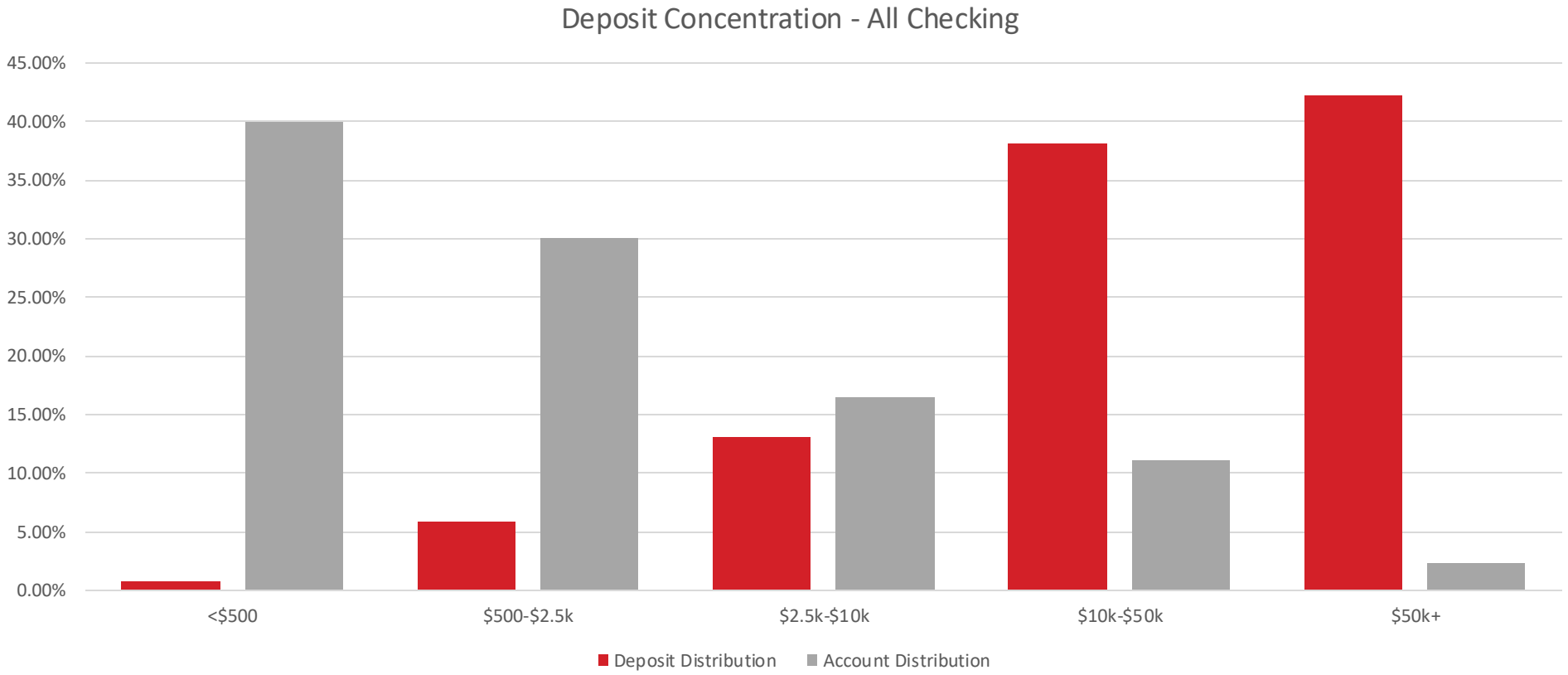
Balance Distribution: Concentration Risk



Majority of accounts are small. Majority of balances are concentrated. This creates concentration risk in funding stability.

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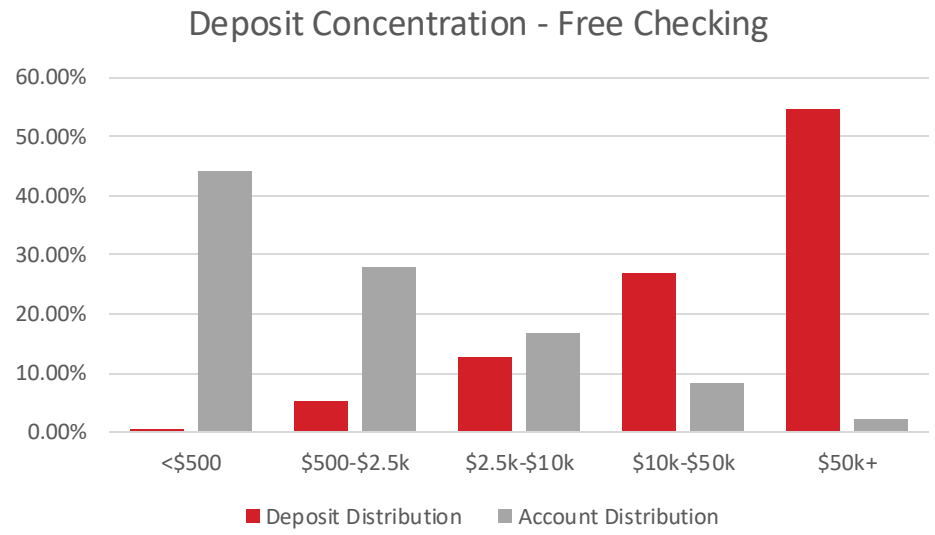
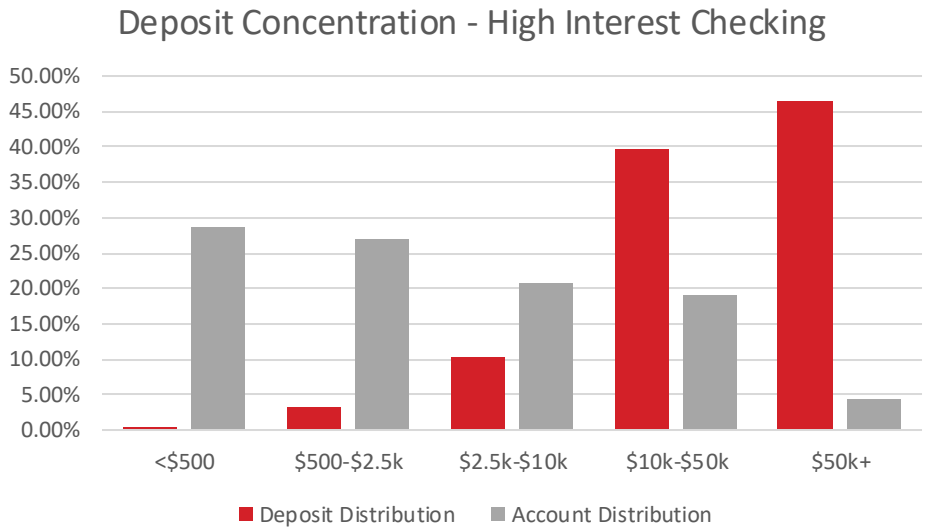
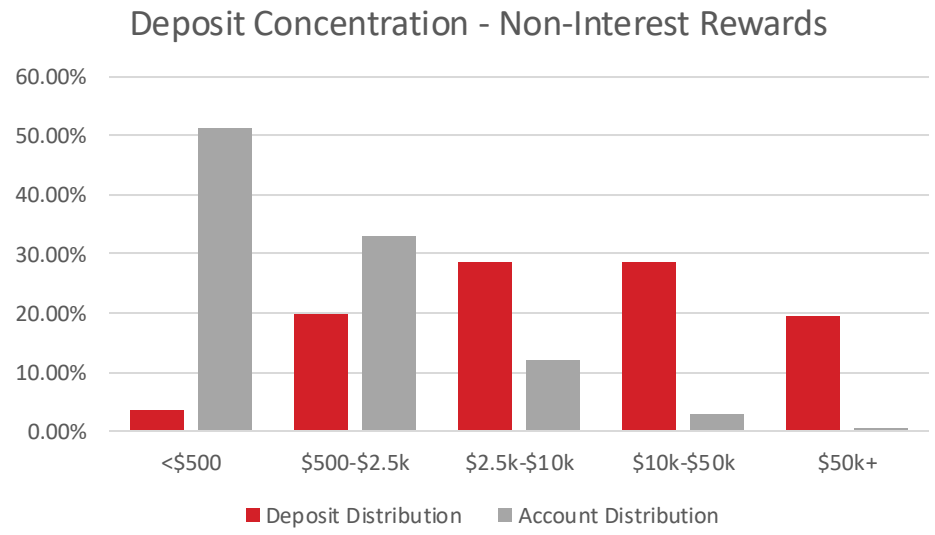
Balance Distribution: Concentration Risk







Deposit concentration risk reduced in rewards accounts.

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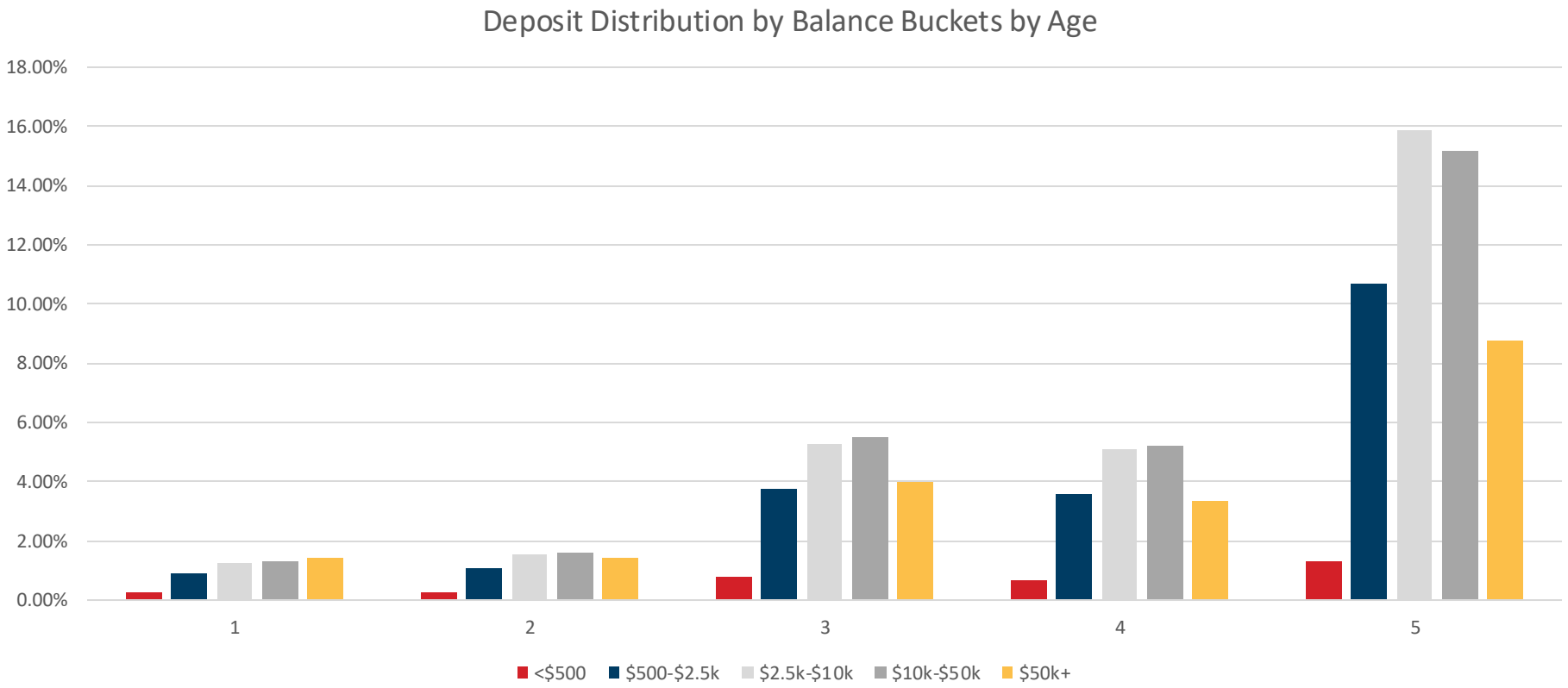
Lifecycle: Balance by Account Age



Deposit stability tends to increase with tenure. Early lifecycle volatility gives way to long-term persistence.

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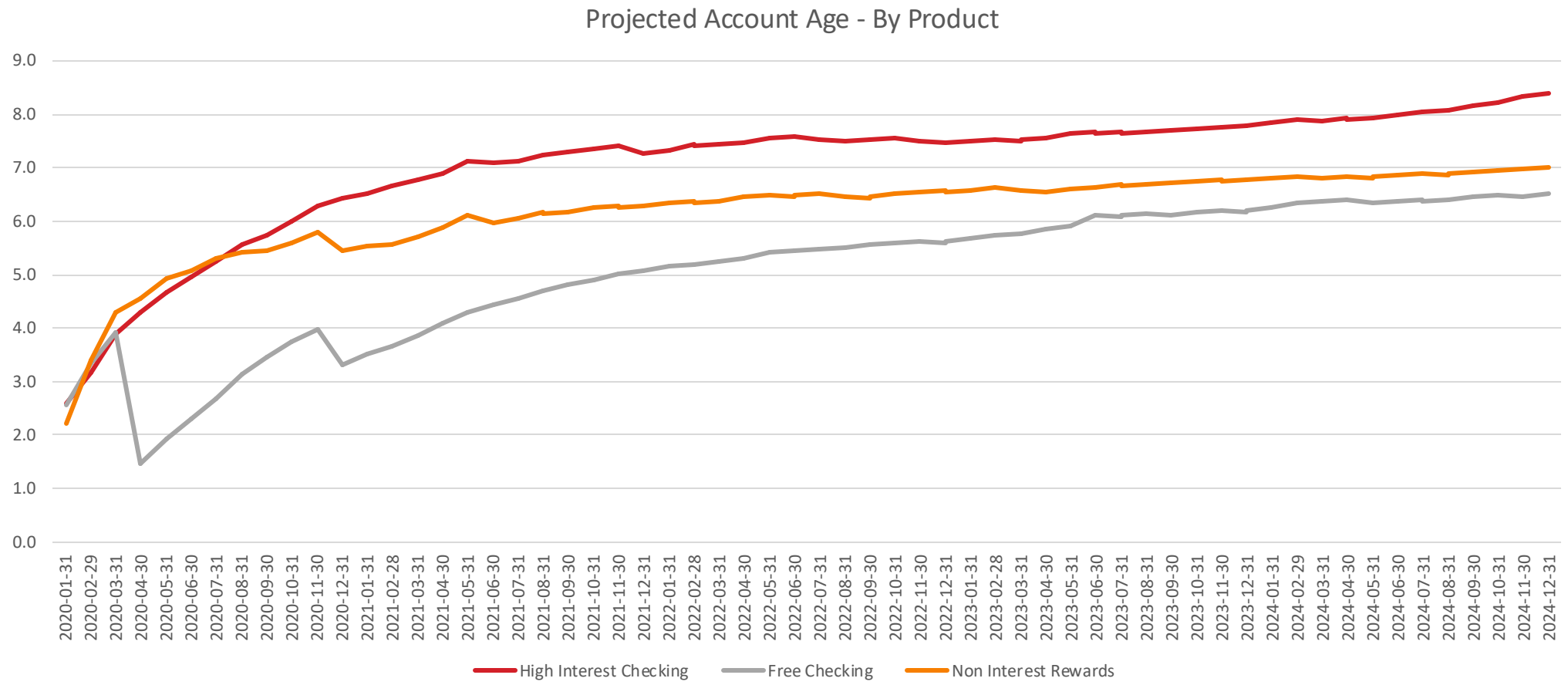
Lifespan – Projected Age of Attrition



Free Checking lifespan is 6.4 years (not 5.0).
NIR lifespan is 7.0 years (+9%).
HIC lifespan is 8.4 years (+29.2%).

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Not All DDAs Provide the Same Funding Value

ALM models that treat all DDAs equally may materially misestimate stability

Transactional

Velocity: High

Behavior: Operating cash

Funding: Low stability

Hybrid

Velocity: Moderate

Behavior: Mixed use

Funding: Medium stability

Stable

Velocity: Low

Behavior: Persistent balances

Funding: High funding value

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PRACTICAL FRAMEWORK

Strategic Applications

1

ALM

More accurate decay assumptions and better segmentation of non-maturity deposits

2

Liquidity Planning

Identify volatile balances and distinguish operational from stable funding

3

Pricing Strategy

Avoid overpaying for inert deposits while protecting sensitive relationships

4

NIM Defense

Preserve low-cost core funding by understanding behavioral drivers

Three Take-Aways for Community Credit Unions

1 Behavior matters more than product type
Not all checking balances are equal. The same account type contains transactional, hybrid, and stable funding.

2 Funding stability is concentrated
A subset of accounts drives most deposit persistence. Rate sensitivity and runoff risk are not evenly distributed.

3 Behavioral segmentation improves ALM
Understanding deposit behavior doesn't replace ALM — it improves the inputs.

"Better deposit strategy starts with understanding how customers actually use accounts."

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