KPMG

Future proof your deposit book

A data driven approach to dynamic rate setting

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Future proof your deposit book – a data driven approach to dynamic rate setting

The landscape of business banking deposit pricing has dramatically changed. The era of stable, low interest rates is over, replaced by frequent rate changes. This volatile environment demands a sophisticated, data-driven approach to rate setting.

The shifting sands of deposit pricing

From 2012 to 2022, interest rates were low and stable. Since the pandemic, however, the macro environment has grown increasingly volatile, d riven by inflation, shifting monetary policy, and global trade tensions. In the UK alone, the base rate has changed 17 times between January 2022 and July 2025, with more changes likely.

In this context, a dynamic, data-driven approach to deposit pricing is essential. Banks must go beyond tracking base rate moves to actively managing rates—steering deposit flows, meeting funding needs, and safeguarding margins. Rising volatility makes this harder and heightens the need for deep customer insight and the ability to act on it.

The need for a data-driven approach

Traditional, anecdotal approaches to deposit pricing (e.g. "follow the leader" or "best buy" are insufficient as they often result in giving away more than is required. What's needed is a structured, data-led pricing strategy built on three core elements:

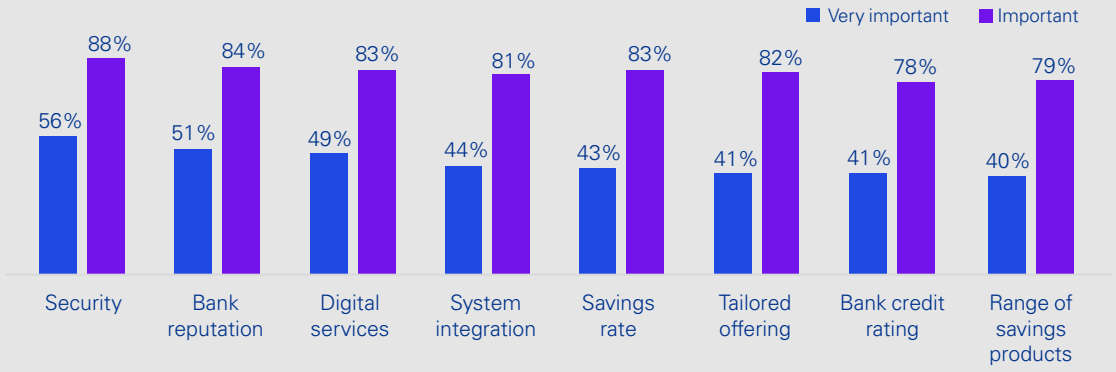
- **Customer Rate Sensitivity**: Segment customers based on factors like business size, industry, and financial behaviours. Not every customer reacts the same way to rate changes.
- **Rate Elasticity Analysis**: Use historic data and market insights to understand how deposit balances respond to changes in interest rates.
- **Pricing Strategy Optimisation**: Build tailored strategies that grow balances, protect margins – or strike the right balance between the two.

KPMG surveyed 500 UK business banking customers and uncovered some key insights:

- **Rates aren't the whole story**: Interest rate wasn't a top driver when choosing a bank – it came in fifth. Security, reputation, digital capabilities, and integration features all ranked higher. Large incumbents still dominate, with around 80% of businesses using one of the top four high street banks. And over half of respondents had just one banking relationship – citing the hassle of managing multiple accounts as not worth the perceived benefit
- **Rate sensitivity isn't uniform**: Smaller businesses (under £3m turnover) tend to care more about the savings rate than larger ones. But across the board, rate sensitivity kicks in only once rates reach a certain threshold – and eventually, the appeal of higher rates starts to level off.

Attributes that influence business customer's choice of banking provider

Rating of attributes which determine main provider choice (%)



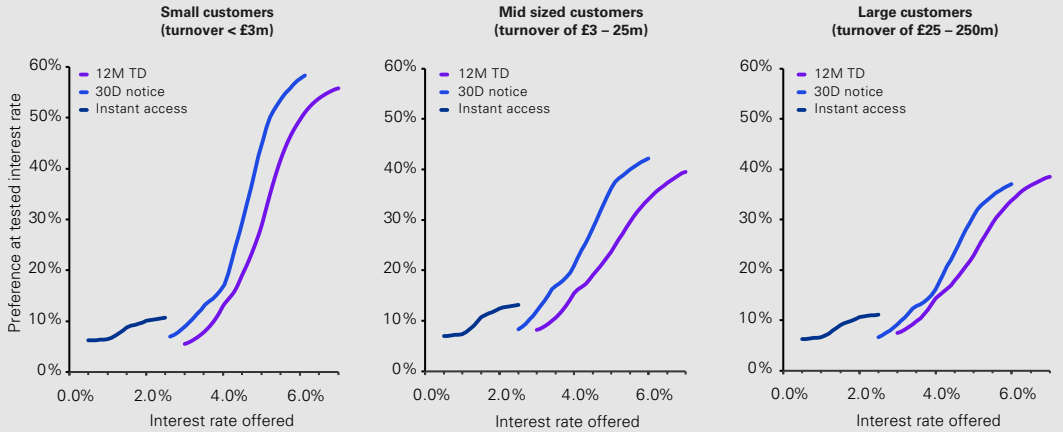
"**Sweep cash into instant access** savings each day as we **get a better rate**… but I have **no idea about the rate we earn**"

"**Rates aren't as important**… as having a reliable partner, so we often focus on the **Tier 1 banks**"

"**20 – 30 bps is not enough** reason to go through the **hassle of opening an account**"

Note: Based on a survey of 480 respondents who have an active role in cash management, are employed at a company achieving a turnover of <£250m with a business savings account

Understanding rate sensitivity by product and segment enables more targeted deposit pricing decisions

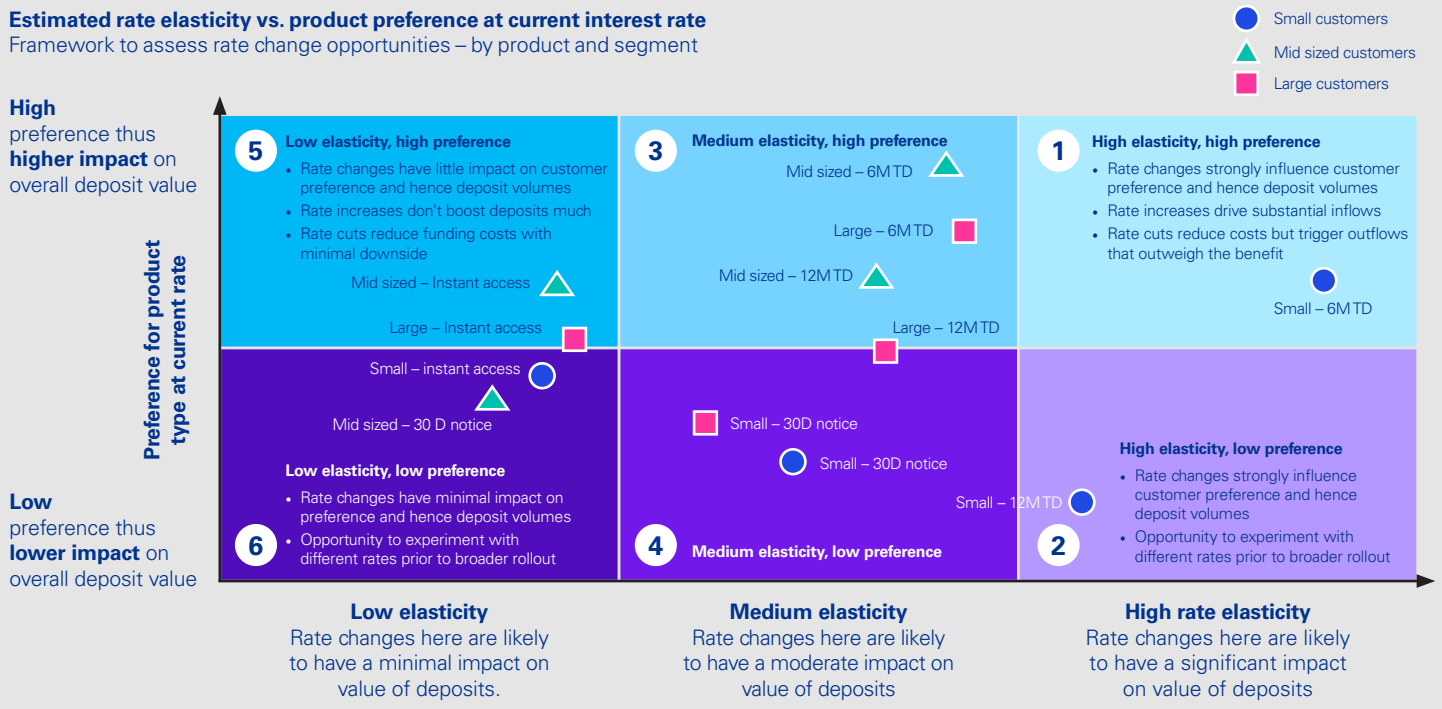


- Across all segments 12MTD is least preferred product with higher preference for 30D Notice
- Changes in rate seem to have limited change in preference for instant access products, suggesting they are generally inelastic
- Small customers appear to be more rate sensitive than medium and large customers

- **Elasticity depends on product**: Deposit products vary in rate sensitivity. Instant access accounts, used for daily liquidity, are least sensitive. Term deposits are more sensitive, as customers trade liquidity for higher returns. Among term products, fixed-term accounts are typically more rate-sensitive than notice accounts, which offer more flexibility.

KPMG's framework to guide deposit pricing strategy

Estimated rate elasticity vs. product preference at current interest rate
Framework to assess rate change opportunities – by product and segment



Note: Elasticity is calculated at the current rate for each product / segment combination

A case study in action

KPMG recently worked with a UK bank to rethink their deposit pricing for business customers. Here's how we helped:

- **Customer segmentation**: By grouping customers based on how rate–sensitive they are and how competitors are pricing, the bank can now make smarter, more targeted rate decisions. They know who will respond to better rates — and who's likely to stay put.
- **Elasticity modelling and rate optimisation**: With predictive modelling, the bank can now estimate how changes in rates will impact balances and income—across each savings product. This gives them the flexibility to adjust rates at the product and segment level to hit deposit growth, income, or blended value goals.
- **Building pricing capability**: We designed and implemented new tools and processes that allow pricing at the segment–product level. KPMG's support went beyond implementation — we provided training, data management guidance, a troubleshooting playbook, and a detailed handover pack explaining the underlying logic and code. This way, the client owns the tool and can keep it evolving over time.

As a result, the bank unlocked £60–80m in additional income by optimising interest paid on deposits.

Key takeaways

Elasticity modelling helps optimise cost of funds

Understanding how rate changes affect balances allows banks to anticipate customer behaviour and tailor pricing accordingly. This enables more targeted rate actions to drive deposit growth, protect margins, and lower the overall cost of funds

Effective use of customer data is critical

Banks hold rich data on customer behaviour and preferences. Using this data effectively supports more accurate, insight-led pricing decisions at scale

Customer segmentation improves rate sensitivity estimation

Segmenting by size, sector, and financial behaviour reveals meaningful differences in rate sensitivity. For instance, smaller firms using notice accounts are often more responsive to rate changes than larger peers that use similar products

Building pricing capabilities unlocks long-term value

Sustainable impact requires more than tools — it needs embedded capabilities. Training, data management, and support resources ensure pricing strategies continue to evolve and deliver value over time

Adopting a data-driven approach to deposit pricing can reduce cost of funds by 5—15 basis points

Conclusion

Deposit pricing isn't static — and your pricing strategy shouldn't be either. A data–driven, dynamic approach lets you go beyond following the competition to actively shaping your deposit base and driving profitability.

We've done it before. Let's talk about how we can help you do it too.

Talk to our experts

KPMG is helping businesses like yours to build and incorporate these strategic pricing tools and capabilities into your business-as-usual activities. Our team of banking / financial services experts combine their deep sector knowledge with our technology and analytical specialists to create and deliver future proof solutions that deliver fast outcomes and lasting value for our clients.

Contacts

Contact us to learn more about how KPMG can help improve the performance of your deposit book.

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