Corporate Insight, Inc.

Volume 5, Issue 3

Summer, 2012

Consulting Insights

Welcome to the Summer edition of *Consulting Insights*, where Corporate Insight's Consulting Services team analyzes emerging financial industry trends.

In a traditionally slow time for the financial services industry, this issue focuses on new and potentially disruptive companies. We provide some key findings from our whitepaper on online alternatives to traditional investment advisors and firms. We also interview Leo Rocco, CEO of mobile payments company GoPago.

This issue also shares some interesting data points from Corporate Insight's recent *Bank Customer Survey Report*, and provide a case study on the benefit MetLife's Facebook profile has seen from a high-profile advertising campaign.

Please feel free to circulate this publication to your colleagues. We hope you find this issue useful and encourage you to contact us to discuss how we can help you improve your business performance through competitor insights.

Understanding New Online Investment Alternatives

The last 12 months have seen an unprecedented proliferation of startups offering low-cost investment solutions through the online channel. While these companies have a long way to go to prove their credibility and win clients, their products and technology could put pressure on the established investment industry toward increased transparency, lower costs and more powerful online resources.

Inside This Issue:

In order help investors, analysts and industry professionals understand these startups' business models and services, Corporate Insight recently published an expanded version of our *Advancing Financial Advice* report. This free guide profiles 15 firms that provide a wide range of services, including free algorithm-based investment recommendations, packaged portfolio products, access to a financial advisor via the Web, and themed "motif" funds. The firms covered – a diverse sample, but by no means inclusive of every such startup – can be seen below.

Why Now?

This is not the first generation of startups trying to disrupt investment advice. Since pioneers like Financial Engines in 1998 and Boulevard R in 2006, a few other firms experimented with similar models to those seen today, but have since shut their doors, been acquired or reinvented themselves. Fast forward to 2012, though, and approximately 30 startups now offer online investment alternatives.

The current generation of investment alternatives and the venture capital they have attracted is likely a byproduct of industry trends and market conditions, many arising from the financial crisis. Trust in large financial institutions is low and continues to trend downward. At the same time, millions of Americans face weak returns, low interest rates, depressed home values and persistent wage stagnation. They need effective, low-cost financial advice.

These conditions – combined with the rise of indexed investment products – have spurred tech-savvy entrepreneurs to offer their own alternatives to traditional brokerages or asset managers. While each startup has its own unique business model, they represent a collective challenge to the financial services industry by offering modern and user-friendly financial dashboards, online planning tools and cheaper and/or more transparent investment solutions.

Four Key Innovators

These firms' strategies and technologies vary widely, but among the firms we've studied, four stand out as innovators with no parallel in the established industry. The first two, AlphaClone and Covestor, allow investors to track the holdings or even trades of investment professionals, while Folio Investing and Motif offer their own spin on the ETF or mutual fund concept.

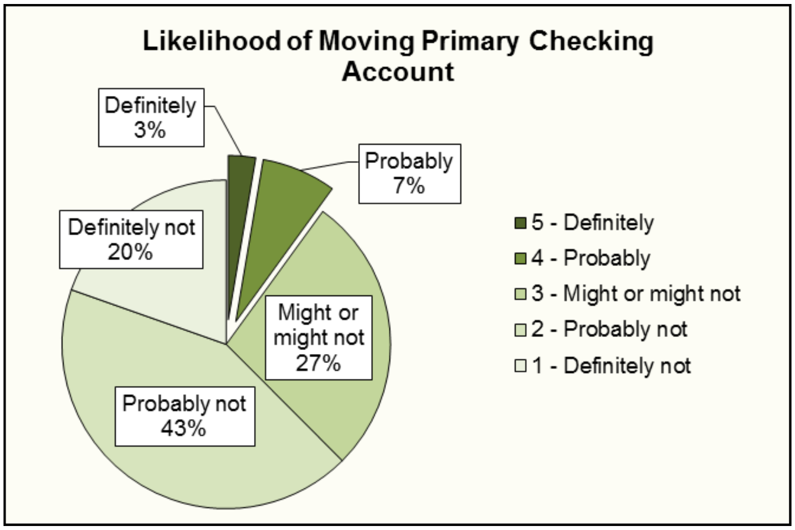
AlphaClone offers research tools and investment portfolios based on publicly-available data mined from the SEC's Form 13F. Large institutional investors are required to complete the 13F on a quarterly basis to disclose their holdings of U.S. exchange-traded securities. Using AlphaClone, investors can examine, say, Warren Buffet's top 10 holdings and their returns.

(Continued on page 4)

Examining Client Satisfaction: Bank Customer Survey

Today's consumers interact with their bank in many ways, and institutions face the challenge of maintaining and investing in each of those separate channels – branches, ATMs, Web and mobile. It is crucial to understand clients' tendencies, needs and priorities. Neglect could lead them to take their accounts elsewhere.

For our *Bank Customer Survey Report*, we examined the preferences of 1,000 banking customers, each of whom had logged into their primary bank's website in the past month. Although this selected for survey participants who use the Web as the primary channel with their bank, we also asked participants about their experience using their bank's mobile platform and in brick-and-mortar branches. We used that data to explore customer satisfaction and determine who the competition for these clients might be.



Key Factors for Satisfaction

Our results showed that a significant percentage of clients were willing and even eager to abandon their current bank. When asked about the likelihood of moving their primary checking account, 10% of survey participants reported that they would "probably" or "definitely" switch accounts in the near future. These dissatisfied customers were younger on average and held fewer liquid household assets than others. Older customers remained more loyal to their banks.

Mobile banking customers – currently 38% of our survey, but likely to grow – were reportedly twice as likely to switch banks, with 14% of participants who had logged into their bank accounts via a mobile device in the past year saying that they would "probably" or "definitely" switch banks, as compared to only 7% of non-mobile banking customers.

There are signs, though, that firms can actually increase mobile client loyalty with effective mobile capabilities. Our survey found that participants who used mobile bill pay and remote check deposit were more likely to recommend their bank to a friend or colleague. Nearly every bank Corporate Insight tracks offers mobile bill pay, and remote check deposits continue to grow as banks catch on to the importance of effective mobile tools to client satisfaction.

The trend toward higher satisfaction held for customers who use more features on the bank website as well. Customers who use bill pay were reportedly more satisfied with their bank than those who do not. The same goes for customers who have a credit card with their primary bank. Over three quarters (78%) of survey participants with a credit card at their primary bank reported that they were "very" or "extremely satisfied" with their bank. In general, our survey found that more frequent use of products and services is positively correlated to customer satisfaction.

Customer satisfaction is also tied not only to specific functions on the firm website, but also to the quality of the Web experience as a whole. Customers who were likely to recommend their primary bank reported that they value ease of navigation and strong user authentication over other attributes. Customers under the age of 40 also rated access to mobile banking "very" or "extremely important" more than three times as frequently as did older participants.

A final relevant aspect of the banking relationship is customer service, even though study participants did not contact customer service very often. Sixty-nine percent of survey participants typically contact customer service once a year or less, most often by phone. These interactions may be infrequent, but they have an outsized impact on satisfaction. Nearly all (93%) of customers who are likely to recommend their bank to a friend or colleague were also "very" or "extremely satisfied" with their customer service experience on the phone. This compares to just over half (56%) of other customers.

Winning the Competition for Clients

The survey also asked dissatisfied participants which type of financial institution they would likely move to. Over three quarters (77%) of participants said that they would move to a different bank. Additionally, a higher-than-expected 48% reported that they would switch to a credit union. Mobile customers were once again a distinctive group for this question, as they were much more likely to switch their primary checking account to a self-directed brokerage account. Thirteen percent of dissatisfied mobile customers reported that they would switch to a self-directed brokerage, as opposed to only 2% of non-mobile banking customers.

While a significant percentage of customers are dissatisfied with their banks, there is no simple explanation for customer loyalty. Banks are now increasingly competing with each other, as well as credit unions and self-directed brokerages. While rates and fees may appear as a significant factor in customer demand, banks should not underestimate the importance of good customer service and competitive Web and mobile platforms.

For more information on Corporate Insight's ***Bank Customer Survey Report*** or **Bank Website Audit**, contact Bob Burlin at 212-832-2002 x115 or rburlin@corporateinsight.com.

MetLife Finds Social Success through Traditional Advertising

It's no secret that life insurance companies have been slow to embrace social media. Interest is strong, but these firms have found it challenging to effectively employ these communication tools while remaining compliant. Add to that concerns over the cost and ROI of these initiatives, not to mention uncertainty about people's willingness to interact with an insurance company via sites like Facebook and Twitter, and it's easy to see why there's been so much hesitation.

Yet, despite these challenges, there are signs that the insurance industry is starting to get a handle on social media. On Facebook alone, all but one of the firms we track through *P&C and Life Insurance Monitors* now have at least one profile. And they're not just present on the network. In fact, several firms have developed significant Facebook audiences.

Since January, all but two firms' main corporate profiles have seen double-digit percentage increases in their number of fans, with five firms experiencing triple-digit percentage growth. Overall, the industry's main corporate pages average over 111,000 fans, up from just over 56,000 in January.

Case Study: MetLife

While the industry as a whole has become more adept at Facebook, 2012 has been a particularly good year for MetLife. Back in January, the company already had one of the industry's largest followings on Facebook with over 140,000 fans, nearly triple the industry average at the time. Since then, MetLife has seen its audience grow 283% to over 536,000 fans. Not only is that the largest Facebook presence of any life insurance company, it's nearly double the fans for the second most popular life insurance page we follow, which belongs to USAA.

This impressive growth is thanks in large part to MetLife's efforts offline. In January, the firm launched its "I Can Do This" campaign, a traditional marketing strategy developed by the Crispin Porter + Bogusky advertising agency with a 30 second ad during Super Bowl XLVI called "Everyone." The campaign centers around the idea that applying for life insurance isn't as complicated as some people make it out to be.

The "Everyone" spot features MetLife's regular cast of characters, the Peanuts gang, as well as a slew of other popular Saturday morning cartoon characters from the 60's, 70's and 80's, all of which are certainly familiar to the Gen X and Gen Y audience targeted by the campaign. The ad also features something else the target audience is sure to recognize – the Facebook logo. In the final few seconds of the ad, viewers are encouraged to visit the firm's Facebook page to "meet the cast."

Like many firms, MetLife requires individuals to "like" their page in order to access all of its features. This strategy seems to have helped the firm see such remarkable gains in new fans.

Of course, it's not enough for companies to get people to "like" their pages. Once they develop a strong following, firms must figure out ways to keep their audience engaged. MetLife posts on its wall between two and four times every weekday and once a day on the weekend. These posts often refer to issues related to life insurance, including the Instant Quote Tool available from the Facebook page, but the firm also uses Peanuts comics to highlight current events, such as the London Olympics.

Building off the success of the ongoing "I Can Do This" campaign, MetLife started promoting a new feature in summer 2012. The Snoopy Snapshot Challenge encourages fans to upload images of their children to MetLife's Facebook page. The winners, which will be chosen based on votes from the Facebook community, will be awarded $10,000 toward their child's education.

MetLife can sit back while the participants solicit votes for their entries, promoting the contest, MetLife's Facebook page and, most importantly, the MetLife Brand in the process. So far, the strategy appears to be working. As of August 28th, MetLife had nearly 61,000 people "talking about this" (a Facebook metric measuring activity related to the page over the past seven days).

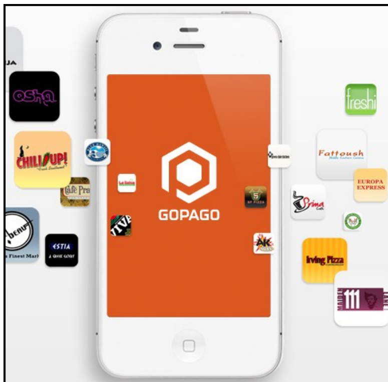
Integrated Strategy & Great Content

So what can other firms take away from MetLife's example? For starters, firms should consider how their social initiatives fit into a broader marketing strategy. With the high cost of traditional advertising, especially for TV ads during the Super Bowl, it's important to get the most out of these opportunities. MetLife's Facebook presence helps extend the life of its television spot and enables the firm to engage with its audience in a more meaningful way. This leads to the second key takeaway – content is king. Without effective and entertaining content, from the television ad through to its Facebook page, it's doubtful MetLife would have been able to gain such a large following (not to mention over half a million views for the "Everyone" ad on YouTube).

For more information on Corporate Insight's **social media research**, contact Alan Maginn at amaginn@corporateinsight.com or 212-832-2002 x116.

Mobile Innovation for Small business: An Interview with GoPago CEO Leo Rocco

Mobile phones have caught on in the financial services industry as another channel for clients to access their accounts and for firms to reach customers. Still, these devices have the potential to become even more deeply ingrained in everyday finances, even perhaps one day replacing cash, credit cards and checks.



Much of the innovation in the "mobile wallet" concept is coming from outside of the financial services industry, either through large tech companies like Google or Apple or smaller startups. Recently, we had the chance to speak with Leo Rocco, CEO and founder of GoPago, about his company's efforts, including its origins, recent small business point-of-sale technology initiatives and partnership with JPMorgan Chase.

Corporate Insight: *Can you tell us about the differences between the current iteration of GoPago and GoPago LIVE?*

Leo Rocco: GoPago, the product that we had released, was about only mobile payments. The value proposition for the consumer was: skip the line; browse, order and pay from your smartphone; and have a friction-free experience with the merchant. And on the merchant side, it was all about moving the order and payment process to the smartphone so you can basically take more orders. And also, it was about information – we're able to share with them who their best customers are and have a communication channel to invite those customers back.

That's great, but [GoPago LIVE] is so much more. We've created this point-of-sale system in the cloud. Since our tablet is already inside of these merchants and they're asking us for this, why not make a complete payments engine and point of sale terminal available to them? So that's what we do. We added a cash box, receipt printer, credit card swiper, and connection to Verizon.

Instead of handling just the mobile payment transactions, we're handling all payment methods of today – cash, credit card… As merchants require, we can immediately add the NFC component if they want. We've created it so it's configurable and modular to be able to accommodate future-proofing.

(Continued on page 5)

(***Investment Alternatives***, *continued from page 1)*

Covestor allows clients to invest in a money manager registered with the firm. Instead of investing assets directly with a manager, Covestor will re-create the chosen manager's portfolio in the client's account and mimic his or her trades going forward. With a minimum investment as low as $10,000, even small investors can utilize a Covestor manager.

Two other firms, Folio Investing and Motif, offer proprietary alternatives to ETFs or mutual funds where investors actually hold all of the component securities. Folios are based on indices, sectors, geographic areas or other strategies, e.g., BRIC Folio, Small-Cap Value Folio or REITs Folio. Motifs are designed for what the firm describes as "themes," such as Housing Recovery or Rising Interest Rates.

Limitations and Weaknesses

In many cases, the services offered by these newcomers have an equivalent product offered by the established industry. In particular, the packaged portfolios products offered by many startups are comparable in concept (although perhaps not in cost) to the managed account services available at major brokerages. Some startups offer algorithm-based investment recommendations. While we have seen the capabilities of these recommendations grow more sophisticated over time, the best available are at still essentially advanced fund and ETF screeners.

Apart from developing new and innovative solutions, these startups also face the challenge of a daunting credibility gap. In our view, these newcomers do not devote nearly enough website real estate to establishing the credentials of the people behind the product. It's difficult to convey trustworthiness online, but simply highlighting backtested performance, outlining the investment methodology or explaining modern portfolio theory may not be sufficient to go to mass market. Other common weaknesses include inadequate investor questionnaires or a lack of a mobile offering.

A New Challenge for Investment Firms

So should established investment firms worry about these startups? Inevitably, some of these upstarts will fail. Collectively, however, these newcomers put pressure on the industry for increased transparency, lower costs and more modern and user-friendly websites. The question is whether firms will address the challenge and provide these capabilities before some of these emerging alternatives begin to chip away at their market share.

It will take time for investors to grow comfortable handing significant assets to an advisor or portfolio manager they've never met in person. But in the long-term, consumer demand for cheap, transparent financial solutions shows no sign of abating. Just as consumers learned to trade and research investments online, so they will eventually learn to interact with advisors – or do their own financial planning – via this channel.

To download ***Advancing Financial Advice***, click here, or for more information, contact Grant Easterbrook at 212-832-2002 x131 or geasterbrook@corporateinsight.com.

(*GoPago Interview*, continued from page 4)

CI: *We hear a lot about mobile payments using near-field communications (NFC), GPS recognition, etc. So is that something that GoPago can support, or is working on developing?*

LR: Absolutely. It's all the same type of technology; it's just writing code to be able to accommodate different use cases. All the componentry is the same.

We believe this: It's not good enough to just have an app that basically communicates your payment information [so that] you're able to scan it via a bar code or NFC reader. That's not good enough because credit cards and cash work just fine 95% of the time… You need to offer more value. And that's why, when we launched GoPago, it was all about, if I'm able to order and pay… before I get to the merchant, it saves me time. It's really just improving the operational processes and offering value.

CI: *When you're trying to get brick-and-mortar small businesses to buy in, do you find security is a concern – switching to a new technology versus the tried-and-true credit card networks?*

LR: Well, everything's encrypted by VeriSign and Chase Paymentech, so the fact that we have those partners is a big deal. The merchants in many cases are not technically savvy to the point where they understand the ins and outs of that network. We've begun to educate them on security. The fact that Chase Paymentech processes more than half of the country's e-commerce transactions, there's a lot of folks that depend on that. And I don't know a more trusted brand than Verisign's encryption technology.

CI: *Could you say a little about what the Chase partnership has meant and how that has changed your strategic focus moving forward?*

LR: We're extraordinarily excited about the partnership with Chase. Chase has 5,500 branches and about 20,000 business bankers, so within each branch, Chase is looking to push GoPago to its consumers. [On the merchant side,] they're saying, "sign up with Chase today and get a modern cash register." On the consumer side, we've engaged with several of the card portfolio – Freedom, Sapphire, Slate, Ink – around providing additional value to the consumer network. [For example,] if you're a Chase card holder, you get 10% off when buying pizza in San Francisco… These are some examples of how we're looking to leverage the Chase relationship.

Chase has partnered with and invested in GoPago and fellow mobile payment startup Square to modernize its small business offerings

CI: *It sounds like the Chase partnership is crucial to taking this concept from the Bay Area to a national audience.*

LR: Exactly. No one today in this market has the ability to be in 5,500 brick and mortar locations across the country – virtually every major neighborhood.

CI: *Do you see most of the mobile payments innovation coming mainly from companies such as yourself or the larger financial institutions?*

LR: That's why Chase invested in us and Square. We're nimble, we're able to get things done faster. We're able to take the power of Chase and wrap some really cool, scalable technology around it to create solutions like this. What's really important is that we're guys from Google, IBM, Microsoft – we're folks that have worked at all these companies.

CI: *So what's the next big thing, whether it's coming from you or your competitors? Is there anything in the works that's going to change mobile wallets or mobile payments?*

LR: GoPago LIVE is just the beginning. We're working on one piece of technology which leverages my experience at IBM and Walmart that is going to change retail. I can't talk about it, but it's going to be awesome. It's exciting right now, but we have a few products in the pipeline that are just going to be awesome.

Corporate Insight's Mobile Wallet Research

The **mobile wallet** or **mobile payment** concept continues to generate buzz. An eclectic mix of companies in the tech, retail and finance industries are experimenting or bringing their solutions to market. This fall, Corporate Insight plans to conduct its own research into Google Wallet, Isis, GoPago and other competitors to serve as a guide for firms within and outside of financial services.

For more information on Corporate Insight's upcoming mobile wallet research, contact Dan Wiegand at 212-832-2002 x118 or dwiegand@corporateinsight.com.

Here is your latest issue of Consulting Insights...

Corporate Insight, Inc.

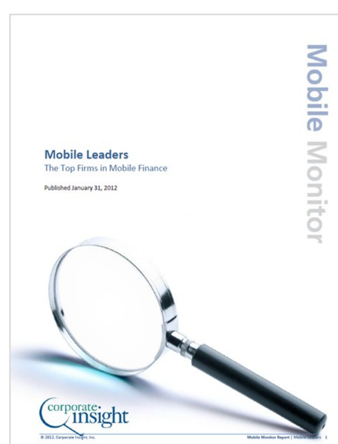
420 Lexington Ave.
Suite 560
New York, NY 10170

Phone: (212) 832-2002
Fax: (212) 832-3327
E-mail: ellisonm@corporateinsight.com
www.corporateinsight.com

Follow @cinsight on twitter

Competitive intelligence for financial services.

Starting last year with ***Money on the Move: Mobile Finance Review 2011***, our comprehensive mobile study, Corporate Insight has been tracking key mobile developments and trends across the financial services industry. Through *Mobile Monitor*, Corporate Insight now provides consistent updates and analysis of the rapidly-evolving mobile finance space.



Mobile Monitor tracks more than twenty leading firms across the financial services industry — banks, credit card issuers, self-directed and full-service brokerages, mutual fund firms and annuity providers. Deliverables include:

- **Bi-Weekly Updates** reviewing key changes to the mobile sites and apps of the *Mobile Monitor* coverage group, as well as significant enhancements from other financial services firms.
- **Quarterly Reports** analyzing relevant topics in mobile finance. Topics thus far in 2012 have included ***Mobile Leaders***, ***iPad & Tablet Apps*** and ***Trading & Transaction Capabilities***.
- **Capabilities Matrices** presenting side-by-side the devices and platforms supported by all firms in the *Mobile Monitor* coverage group and the mobile functionalities available from each.
- **Behind-the-Login Films** showing the experience navigating through and executing all mobile capabilities. These films cover each firm's mobile site and iPhone and iPad apps.

For more information on *Mobile Monitor*, please contact Bob Burlin at rburlin@corporateinsight.com or by phone at 212-832-2002 x115.