REENGAGING YOUR CUSTOMERS – CONSUMERS AND THEIR BANKING RELATIONSHIPS

Introduction

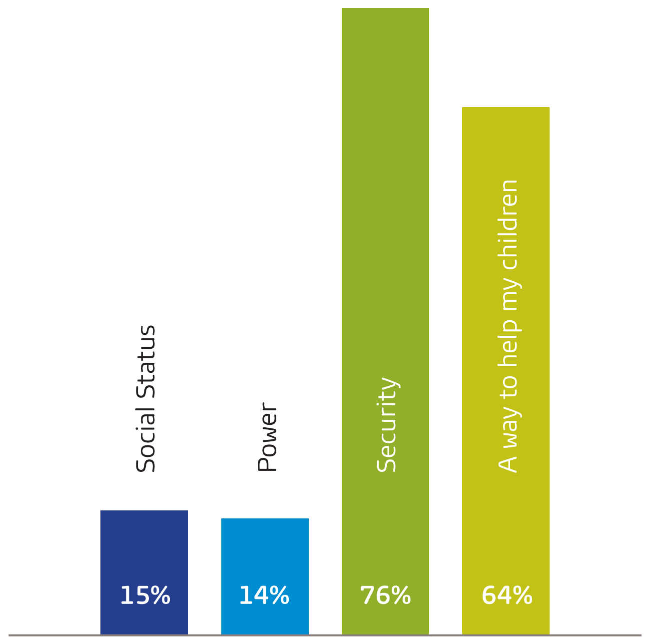
There is consistent evidence in analyzing consumer trends that Americans today are less focused on amassing possessions in defining what a "good life" is and are more focused on enjoying life experiences with friends and family. Even home ownership, long the defining pinnacle of the American Dream, has diminished in priority, particularly since the Great Recession. This shift in attitude and values is reflected in the relationship consumers have with financial institutions as well. With a greater desire for stability, security and authenticity in their lives and with lingering distrust in the institutions that failed them in these regards just a few years ago, consumers are resetting their expectations of their financial partners.

Research by GfK and Personetics examines the current state of consumer perceptions of their relationships with their primary financial institutions. While there is a considerable amount of weakness, consumers do not appear to be abandoning the traditional players. That said, the fissure is real and runs across age groups, income groups, and applies equally to men and women. With FinTech innovation at a fever pitch, consumers are being introduced to a new style of provider at a time when their loyalty seems to be waning. It is imperative for banks (and all traditional financial services players) to take advantage of the position they currently hold by paying heed to these shifting attitudes while there is still time to mend fractured relationships.

Defining The Good Life

The Great Recession was a turning point for American attitudes. The events of 2008 fundamentally changed the way people look at the world and altered their values. Americans are much more likely to rate as extremely important intangibles like protecting the family (79%), freedom (74%), stable personal relationships (74%), and authenticity (73%), while wealth (21%) and power (14%) fall much farther down the list. Money, long the measure of status for Americans, seems to have lessened in prority. When asked what money means to them, Americans are much more likely to say "security" and "being able to help your children", rather than "power" or "social status".

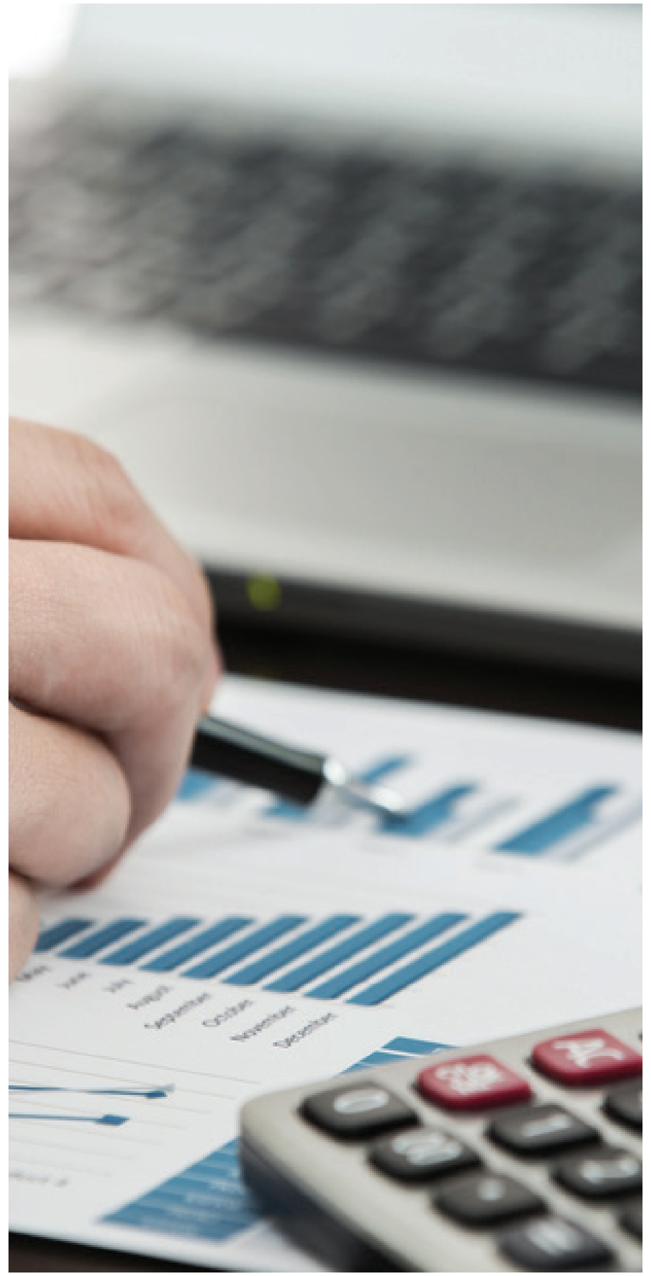
What does money mean to you?



In fact, declining numbers of Americans agree that they "look upon my earnings as a statement of my success," standing at 41%, down 5 pts from 2010. Consumers also seem less willing to use debt in an effort to "keep up with the Joneses". In what appears to be a direct response to recent events, Americans have become more debt-averse with declining numbers agreeing that "I don't mind borrowing money when I need to," 29%, down 7 pts from 2010.

So, if Americans are less likely to attach money to success, how do they define the "Good Life"? In many respects, attitudes are shifting back to those of an earlier time. For the first time in forty years, American consumers are defining the "Good Life" by experiences rather than possessions. Looking at a group of 14 trended items (7 experiential, 7 possessions) tracked since 1975, American consumers prefer experiences by an average of 4 percentage points. Home – for many years the chief possession – is down particularly sharply since the Great Recession (at 49%, down 23 points since 2010). What is the number one item defining the "Good Life" among the trended items? A happy marriage.

From the 1970s to the early 2000s, the trend was toward possessions, to the point that by 1994 Americans rated possessions and experiences as equally important (and continued to do so into the 2000s). In 1975, in contrast, Americans favored experiences by 11 points. In a sense the country has come full circle. Symbolic of this shift is the increased importance of time over money. Growing numbers of Americans agree strongly that they would rather have more time than more money (31% agreement, up 8 pts from 2011).



American financial health
Now, seven years past the Great Recession, do we believe that consumer attitudes are merely a reflection of that event or are there real, fundamental issues still at work? A recent GfK study for the Center for Financial Services Innovation (CFSI) points to continued weakness in consumer finances that may be even more impactful than past events. The research found that 57% of Americans – 138 million people – are struggling financially. More than a third of households frequently or occasionally run out of money before the end of the month and more than four in ten households struggle to keep up with their bills and credit payments.

Financial health segments
These "financially unhealthy" consumers are not merely the underbanked and are not limited to those on the low end of the income scale; they are the everyday customers of banks who are struggling to manage their day-to-day finances.

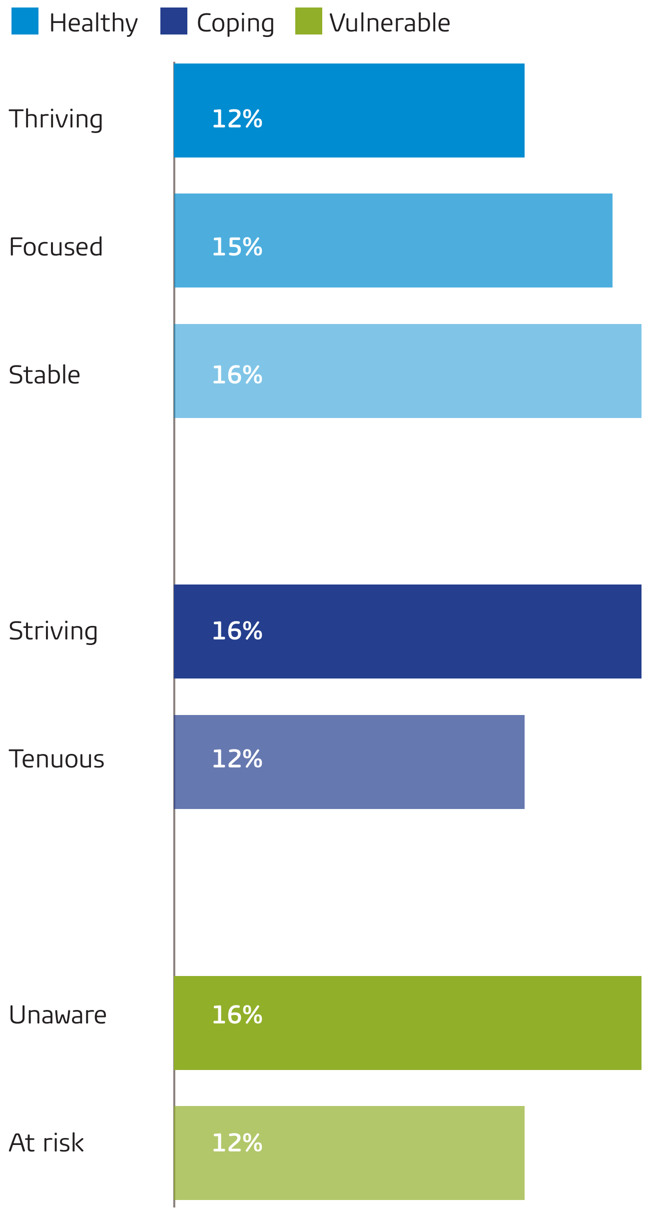
When looking across the seven segments, an interrelated set of behaviors and attitudes that led to "financial health" arose. These behaviors are not merely about managing day-to-day finances; they entail both actions that increase a consumer's resiliency when the inevitable financial shocks come AND help put them into a position to take advantage of opportunities when they come along. Enabling consumers to plan ahead and to save are essential to driving financial health. Most interesting is that these behaviors hold true across income segments.

Helping consumers to build good financial habits has traditionally been accomplished through financial education, but as we look at the numbers above, financial education alone is not helping. Consumers need simple tools that enable them to build these habits into their everyday lives. This is especially true for the newest generational to come on the scene.

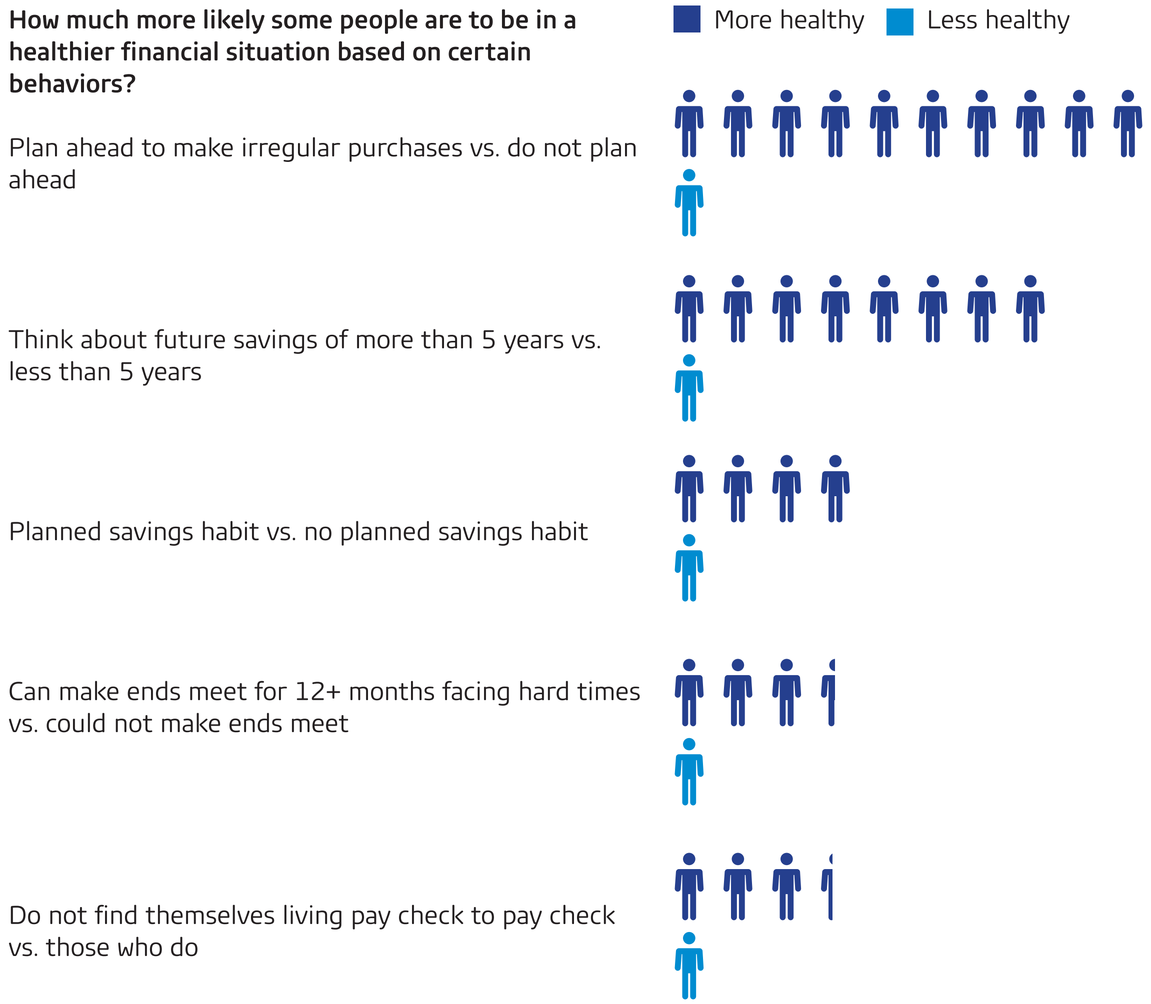
Over the last seven years, Millennials have grown from a segment aged 11-27 to the ripe old age of 18-34; making them prime consumer targets. Many see this generation as being "anti-bank" and "mobile only", but our research indicates this is not the case. That said, this group of digital natives are pushing banks to use social media and mobile applications as primary channels. They want help, just not in the way banks have traditionally delivered it.

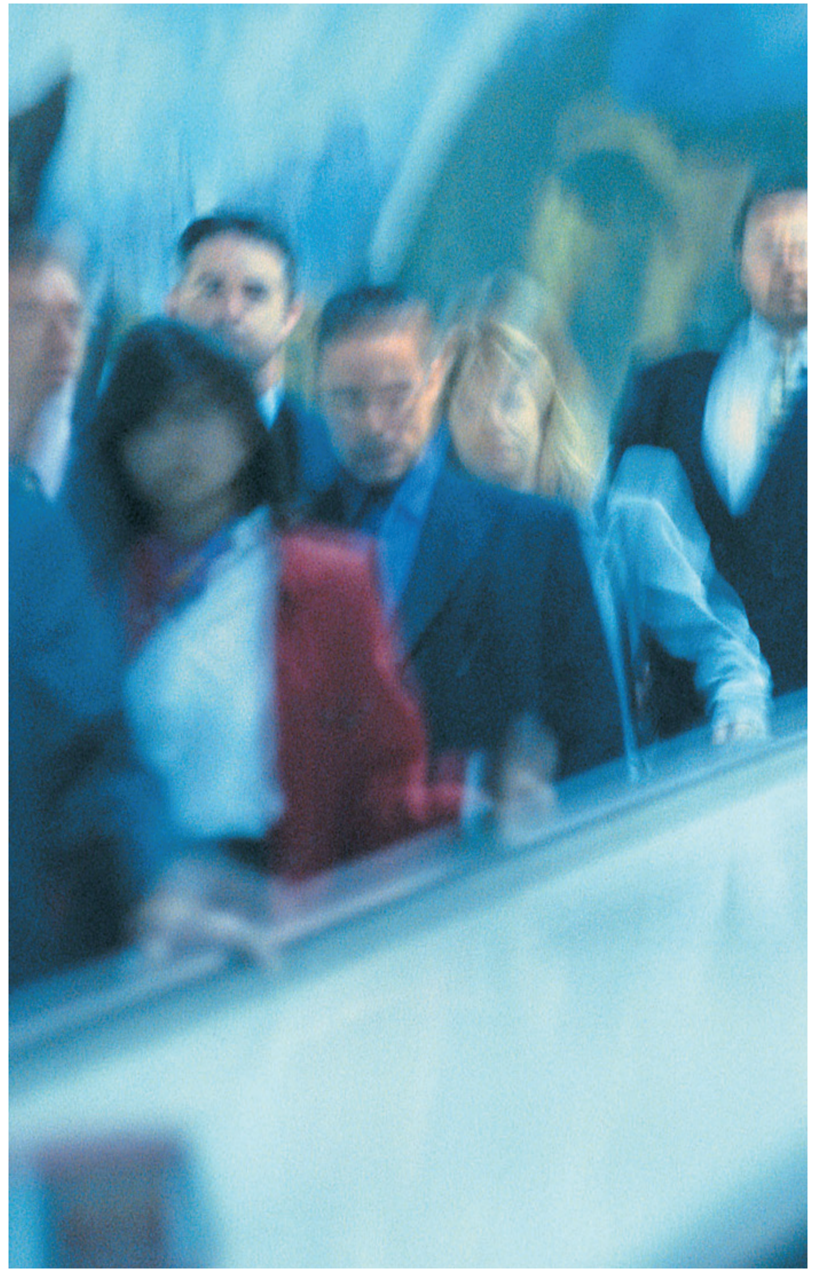
Fortunately, the digital economy and the rush of investment into FinTech is making this possible.

Financial health segments

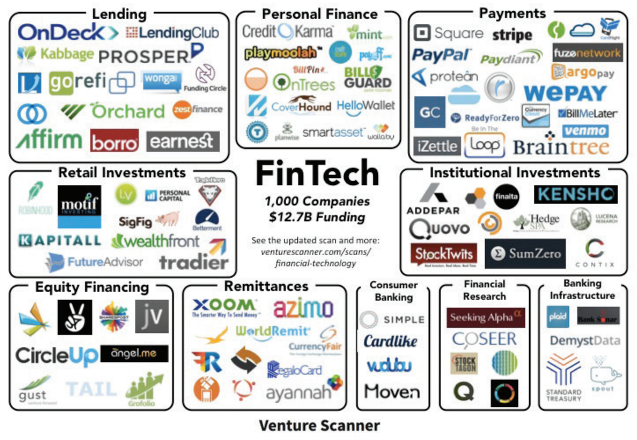


How much more likely some people are to be in a healthier financial situation based on certain behaviors?





The FinTech explosion



According to a recent report on FinTech investment from Silicon Valley Bank, there was $3.1 invested in the fintech sector in Q4 of 2014, making it the busiest quarter for investment in the last 5 years. While many of these start-ups find themselves in the hands of traditional players, we are increasingly seeing firms go to IPO (Lending Club & Yodlee for example) and look to compete for customers. While the banks may be the eventual acquirers of many of these companies, today, consumers are interacting with a set of players that aim to revolutionize the financial aspect of their lives.

Disrupters are using technology to reinvent the customer experience. They are creating tools and platforms that are not only simple, but address specific consumer problems, and in many cases are free. In fact, the user experiences being created today not only cause competition within categories, they also raise expectations across categories. These companies are often leveraging technology to optimize some part of the value chain, removing or sidestepping legacy systems, high-cost intermediaries, and burdensome regulations. They are inserting themselves in-between customers and the traditional players, making well-known brands play the role of ingredients.
In short, FinTech disrupters are raising consumer expectations and starting to chip away at the relationships that traditional financial services players have with their customers. The question remains, when a consumer uses an app to make sense of their financial world, who holds the relationship? Is it the tech upstart or the institution that actually holds the assets and/or facilitates the transactions? The answer to this question is a key to understanding where FS players should place their investment bets moving forward.

Relationships drive behavior

Financial services companies have been lucky. While many businesses struggle to develop long-term relationships with their customers, consumers usually think about their dealings with financial services providers in the long term. People rarely change their bank account, life insurance is (hopefully) a long term commitment, and most investing is done for funding long term needs like college and retirement. Unfortunately, industry trends of reputation damage, product commoditization, and disruptive competitors, have led these relationships to deteriorate into a mere exchange. We see that banks and their customers have reached a point of indifference; and indifference is often the killer of long term relationships. In order for banks, and financial services players in general, to protect their market share and in fact grow it, they need to pay particular attention to their relationships with consumers and they need to do that in a personalized way.

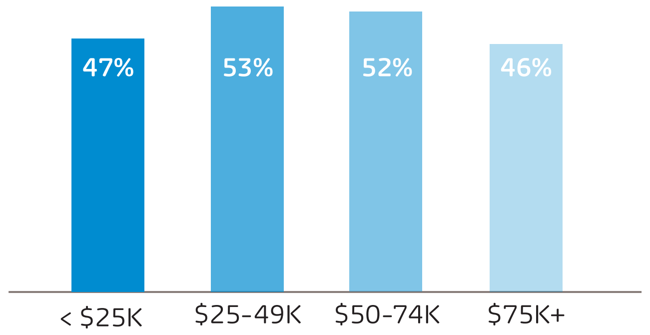
Banks have an everyday role to play in the lives of their customers, but what we wanted to explore is the nature of the relationship that banks have with their customers. This research points out that the ties that bind are not very tight.

How likely would you be to recommend your primary bank to friends and family?

Exploring banking relationships

With the exception of customers of retirement age, a third or less of customers are seen as promoters. Interestingly, the youngest consumers (aged 18-24) have a much higher opinion of their banks then their slightly older millennial colleagues. What are banks doing to their youngest consumers when they reach their mid-twenties to turn them off?

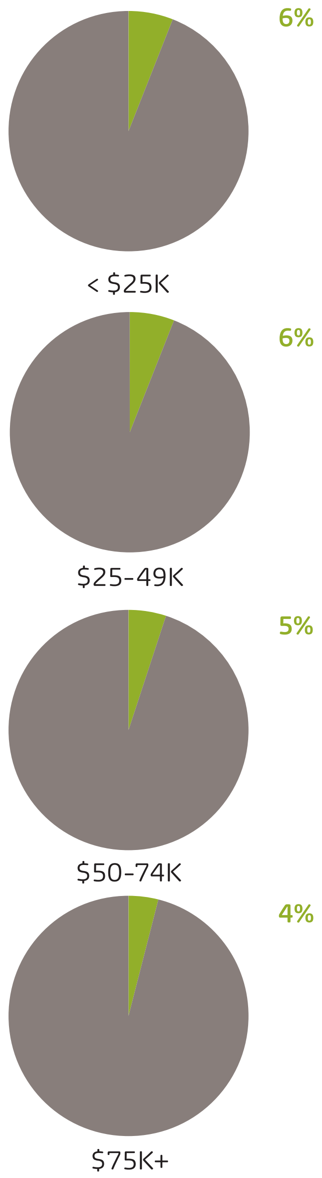
How likely would you be to recommend your primary bank to friends and family?



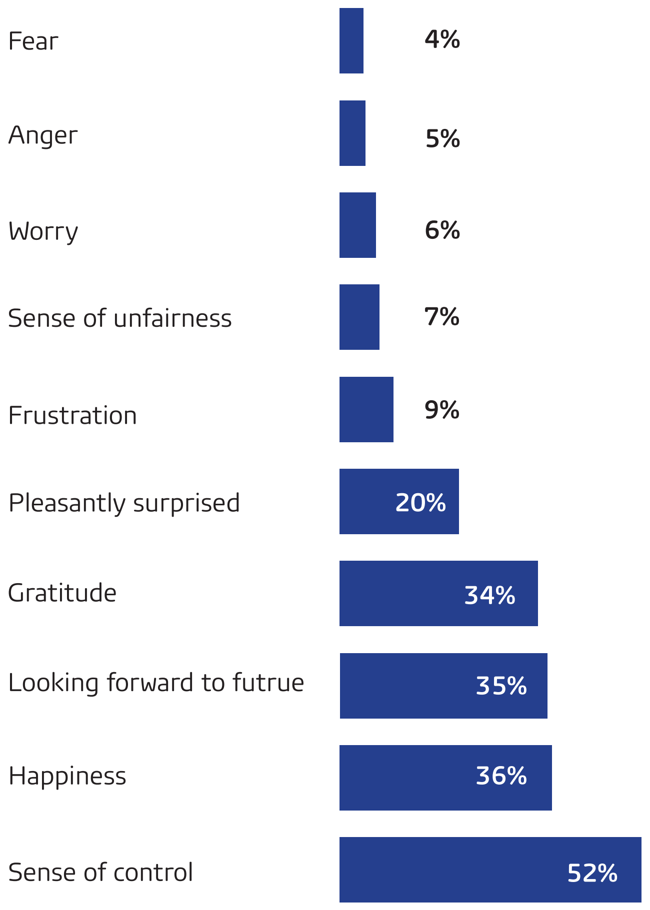
Strong marketing efforts by banks aiming at higher income customers don't appear to have had a positive impact on their loyalty.

Despite low levels of loyalty, customers don't appear to be heading for the exits. Whether it's the high hurdle of changing banks or the lack of satisfactory alternatives, customers suggest that they are sticking with their current provider, with more than 60% saying they are not likely to move in the next 6 months.

How likely are you to move your primary banking account to a new bank or institution in the next 6 months?



How often do you experience each of the following sentiments in your day-to-day banking?



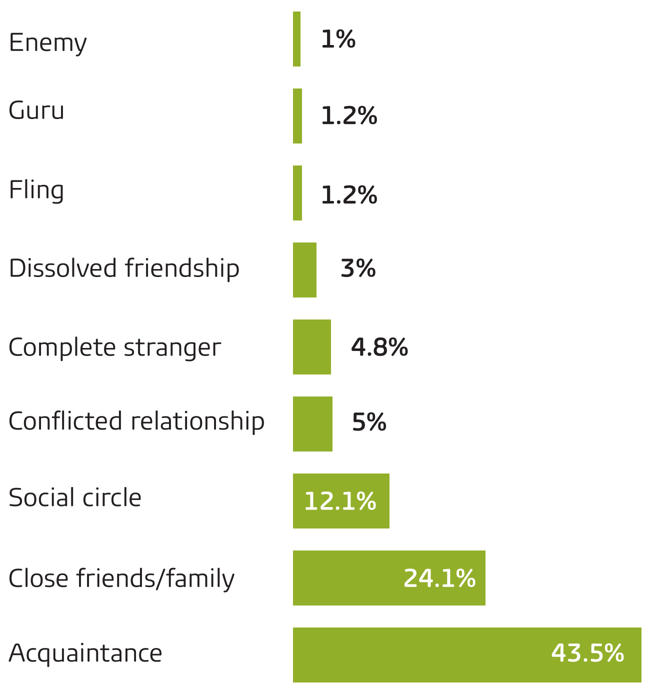
Even though "positive" emotions outweigh "negative" ones at better than 3 to 1, less than 40% say their bank makes them feel happy and only 1 in 5 suggest that they are pleasantly surprised by their bank always or often. What they do feel is a sense of control; a feeling that relates more to a transactional relationship than an emotional one.

How close is close?
Delving deeper into the relationship question, we can see that banks could be placing themselves in a position of vulnerability. While metrics such as NPS provide a strong measure of loyalty, GfK's research on how consumers think and relate to brands has taught us that companies are missing many of the signals that their customers give off, signals that could provide guidance into how brands can bring them closer. The most interesting aspect of this research is that consumer-brand relationships are much like human relationships.

When we looked into creating customer relationship types, we found that equating them directly to human relationships (a close friend, a stranger, an enemy, a fling), provided compelling power to understand. This understanding leads to an enhanced ability to create action. In a recent article (link) in the Harvard Business Review, John Wittenbraker details how companies can and should manage customer relationships using this refined view. While making the shift to understanding consumers' true relationship with your brand has many facets, one thing is clear; relationships are built on the expectations and realities of the experiences consumers have with your brand.

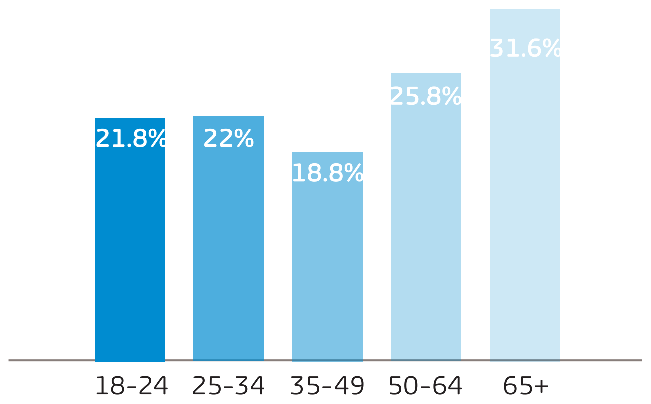
So, how do consumers view their relationship with their primary bank?

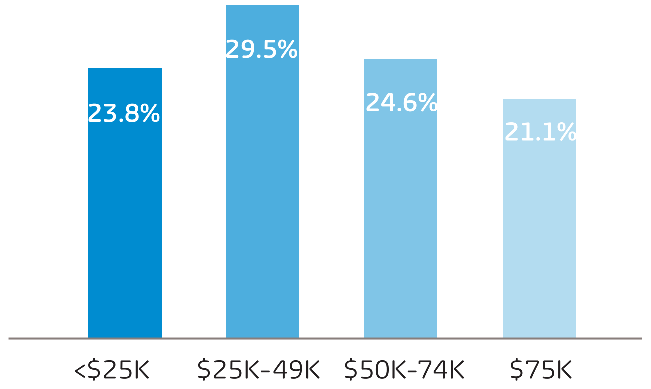
Imagine the relationships you have with your primary bank as if it was a human relationship. Which of the following best describes the relationship that you have with your bank?



While clearly not negative (1% Enemy), responses are decidedly lukewarm. Over 55% of consumers see their bank "casually", as either an acquaintance or as part of their social circle, while less than a quarter see their bank as a close friend/family. This would seem to correlate well with the low loyalty/low switching perspective discussed earlier. Unfortunately for banks, there appears to be an oncoming generational problem.

Some people decribe their relationship with their bank like a close friend/family member.

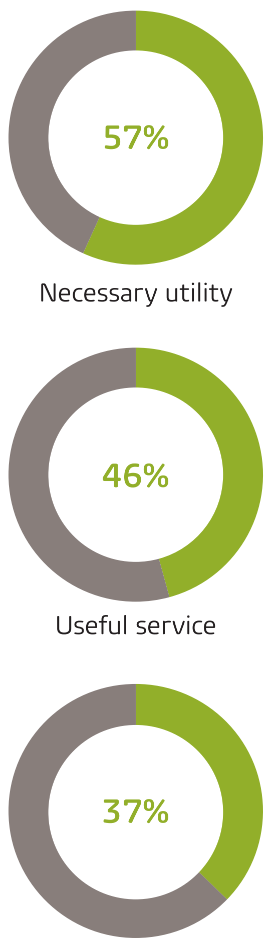




While not even a third of any age group sees their bank as a close friend/family, less than a quarter of Millennials, and less than 20% of Gen X have that type of strong relationship. Furthermore, consumers with the highest incomes (over $75,000) are the least likely to see the relationship as a close one.

Are banks trusted advisors
Taken another way, consumers essentially agree that their bank is either a useful service or simply a necessary utility. Less than 40% see their bank as the trusted partner that is often the key to their success.

How some people feel about their banks



Why have banks been unsuccessful at bridging the gap to trusted partner when they have an envious position of being in the lives of their customers on a daily basis, handling some of their most personal data, and not to mention their customers' financial well-being in their hands? Despite the fact that banks have more data on customers than they've ever had. It appears that like a relationship gone stale, banks just don't know their customers very well any more.

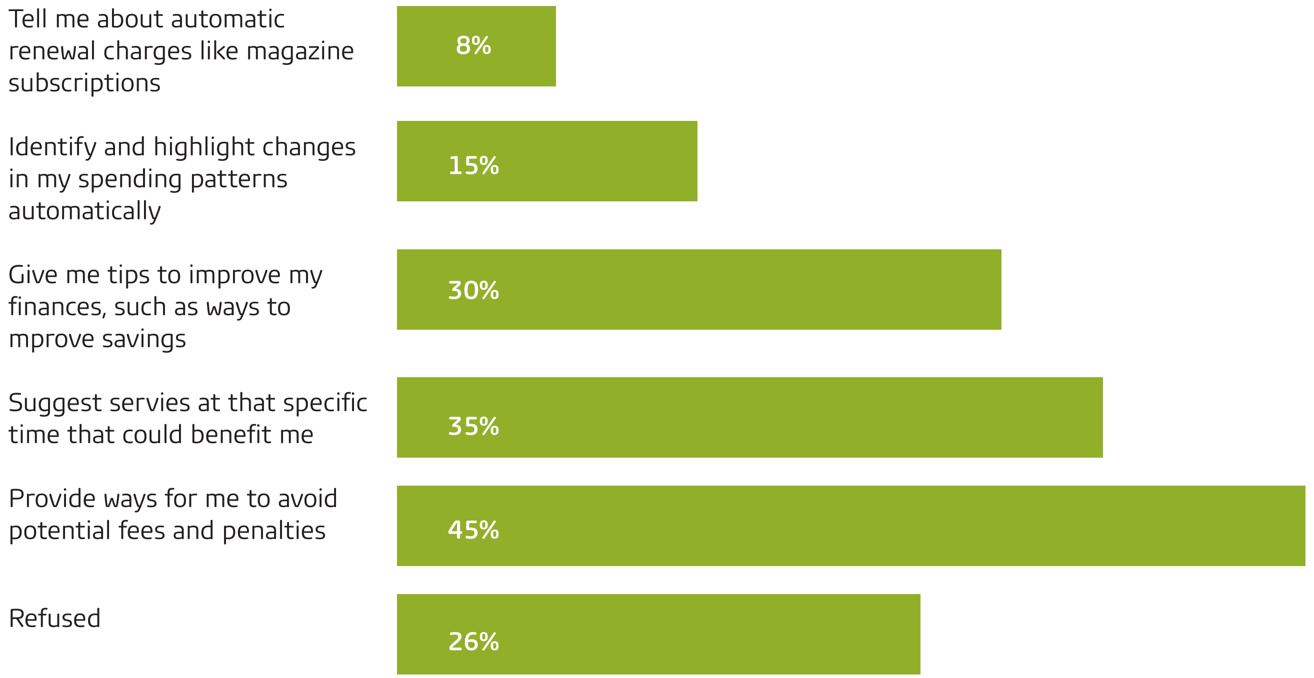
Statements about how some people feel about their bank

Less than a third of customers agree that their bank knows them and their financial needs well! Nearly the same amount feels that their bank puts its interests ahead of customers. Banks just aren't doing the things that are necessary to build a personal relationship with their customers.

The need for personalization
We believe that improved technology makes this level or personalization possible. As we looked at the idea of personalization technology, we worked together with a small, but influential leader in the field to provide some perspective. As we looked to ways that banks were currently experimenting with personalization, we had Personetics provide us with a number of ways that banks were beginning to use this technology and asked consumers if they were benefiting from this investment yet. Clearly, personalized information is still on the horizon.

As we can see, on average, less than a third of bank customers are seeing even the most basic personalized messaging, and this is where we see the biggest risk for banks.

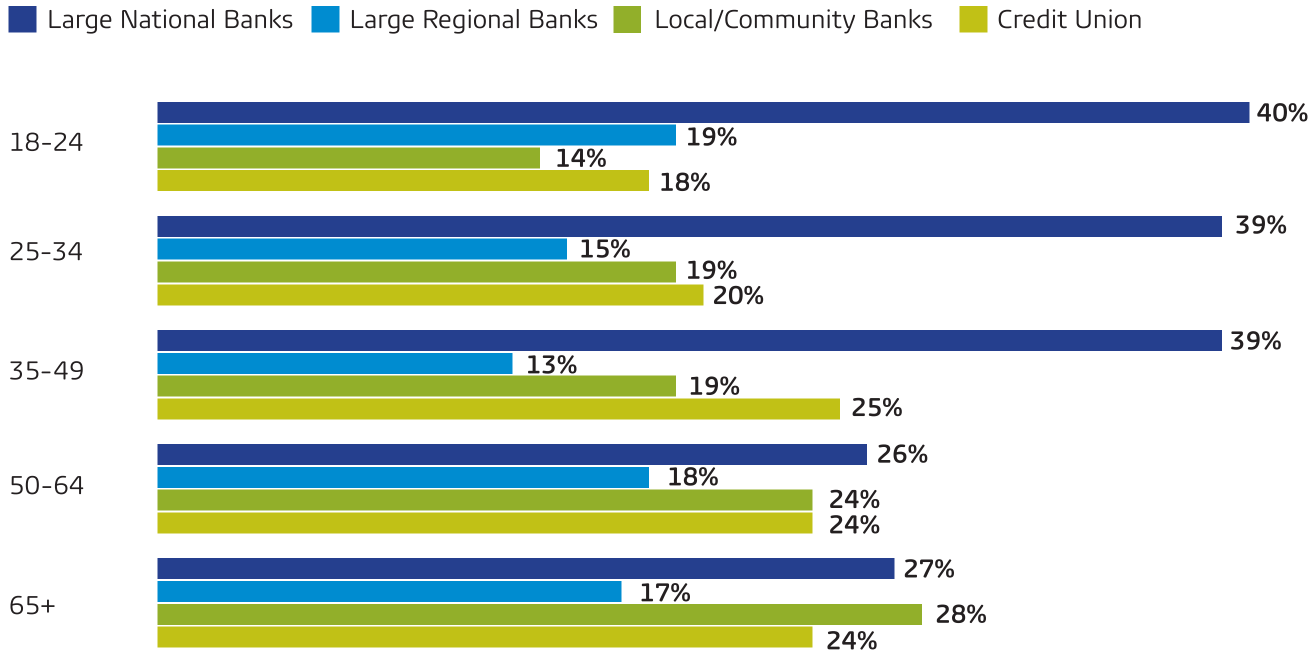
Thinking about ways your bank provides guidance to you based on your personal financial situation and needs, currently, does your bank provide any of the following to help you better manage your day-to-day financial life?

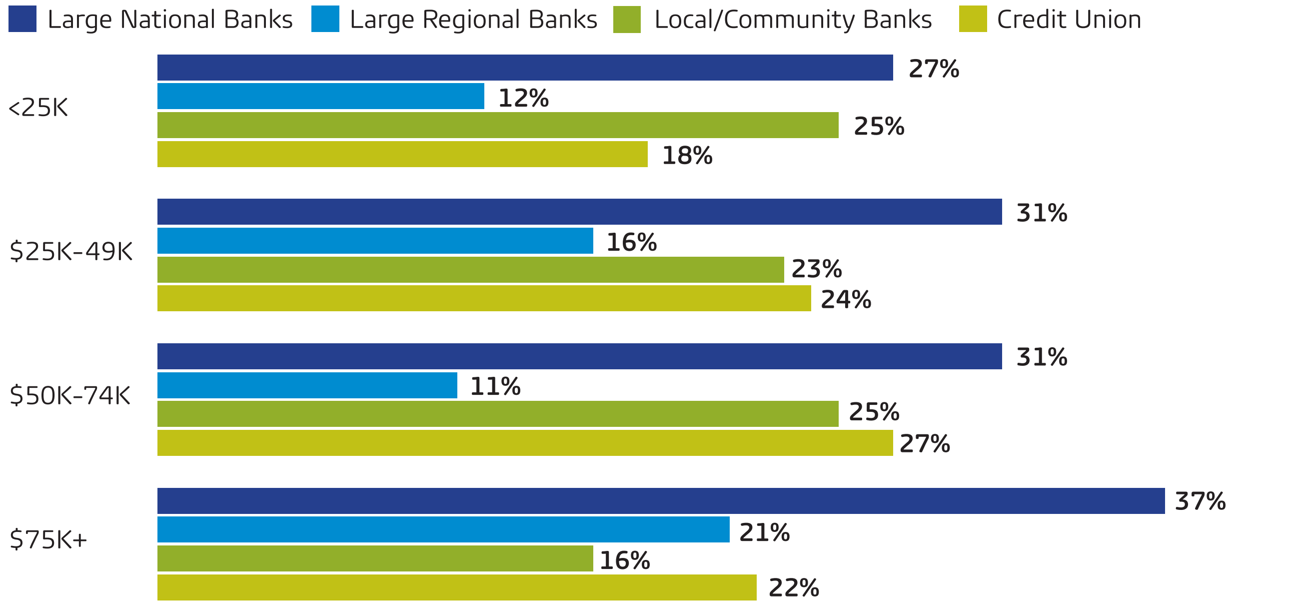


Financial Services

Where are people banking?
When we look at the onslaught of FinTech and combine this with the current state of consumer-bank relationships, one could imagine that this spells doom for the industry. But a closer look at the habits of bank consumers suggests that the end is not yet in sight. People still want to do business at a traditional bank and many of them do so. A third of consumers are banking at one of the four largest banks in the US (Chase, Bank of America, Wells Fargo, and Citibank). 17% are banking at large regional banks (like PNC, US Bank and/or SunTrust), 23% at local banks, and 24% at credit unions. Just over 4% consider themselves to be "self-banked", that is they manage their financial affairs using tools and institutions outside the traditional banking sector. The large national banks have a slightly younger client base with a mean age of 44.

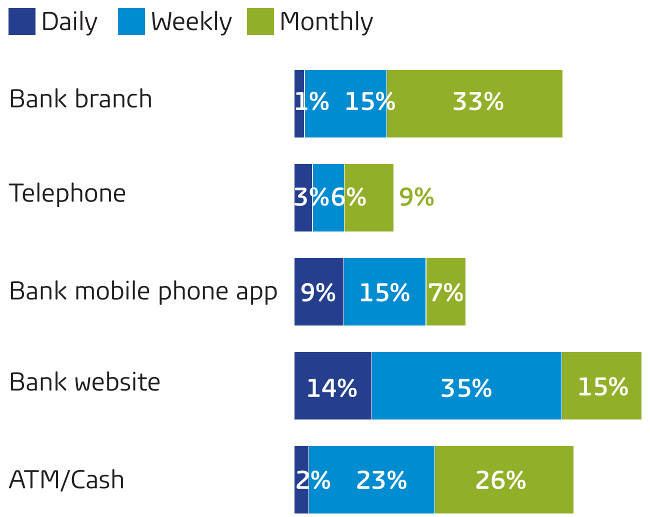
Which of the following would you consider to be the financial institution where you do most of your banking?





Customers demand omni channel
The large national banks are successfully moving their customers to higher digital channel usage but credit unions are succeeding here at the same rate as the regionals. It is the local banks that are still attracting those customers who need more face-to-face interaction in the branch. Despite the move to digital, customers across the board still find the branch to be an important channel with nearly 50% suggesting that they visit a branch at least monthly (43% of national bank customers). The bank still holds an emotional pull for many bank customers. 61% of bank customers agreed with the statement, "in order for me to consider a bank for my primary accounts, they have to have a local branch that I can walk into when I need to (57% of national bank customers vs. 71% for regional bank customers (highest).

How often do you use the following service channels to conduct and monitor your day-to-day banking activities?



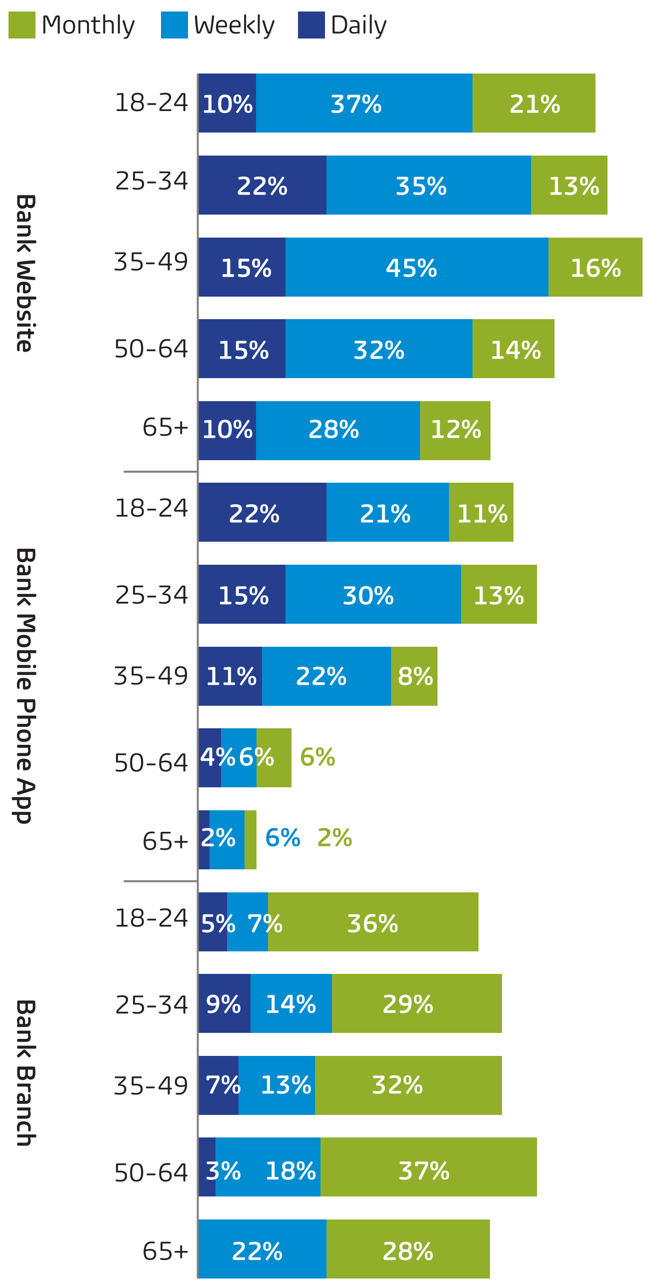
The common thought is that Millennials have abandoned physical channels and only want to engage banks digitally. What we find is that banks' younger customers still want a physical place to bank.

Over 45% of those aged 18-34 visit their branch at least monthly (vs. 50% overall), but they are also the most active users of the mobile channel (43.6% at least weekly vs. 32% for those 35-49 and just under 10% for those 50-64). Millennials are truly the Omni channel customers that banks are seeing coming down the pike. The digital divide seems to sit between Baby Boomers and Gen X. When asked if online banking and a mobile app were more important than branch and phone staff, the younger generations stand out.

Many customers (especially their younger customers) are relying on more self-serve channels, taking them even further away from opportunities to interact with service and sales professionals. Fortunately, they are not seeing other banks as a better destination BUT here lies the risk. As mentioned earlier in this paper, consumer tech firms have created user experiences that set the bar across industries.

They have created highly personalized interfaces (think Amazon), serving up what customers want, when they most want it. Furthermore, these players are slowly, but surely moving into financial services, with both payments and P2P lending taking the lead. Disruptive tech players, operating on the fringes of current regulatory frameworks are slowly nibbling away bank market share.

Even though the mass market of consumers don't see themselves banking with these alternative players in the near term.



Banks do need to take advantage of this short runway and their current "friendly" relationship with customers to build the engaging and personalized user experience that their customers are coming to expect. The risk is that they will be left with the older, less affluent consumer base still comfortable with the old model.

Questions? Contact us!
Keith Bossey | T +1 212 240 5623
keith.bossey@gfk.com