The paths of least resistance

Understanding your consumers to create better reach
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A great deal of emphasis has been placed designing financial services products to target millennials lately. Rightly so, since they will make up three-quarters of the working population by 2025. However, financial institutions shouldn’t focus exclusively on one age group, or they will miss the nuances of consumer preferences in how they want to interact with financial services companies.
Who are the generations?

- **Gen Z, iGen or Centennials**
  - Born 1996 and later
  - Purchase influences: brand evangelism and trends
  - Financial values: impulse purchases, e-stores, life-long debt
  - Learning and training format: multi-modal, eLearning, interactive, student-centric, kinesthetic

- **Millennials or Gen Y**
  - Born 1977 to 1995
  - Purchase influences: friends, no brand loyalty
  - Financial values: short term wants, credit dependent, lifestyle debt
  - Learning and training format: emotional, stories, participative, multi-sensory, visual

- **Generation X**
  - Born 1965 to 1976
  - Purchase influences: experts, brand switches
  - Financial values: medium-term goals, credit savvy, lifestyle debt
  - Learning and training format: practical, case studies, applications, spontaneous, interactive

- **Baby Boomers**
  - Born 1946 to 1964
  - Purchase influences: authorities, brand loyal
  - Financial values: long-term needs, cash, credit
  - Learning and training format: technical, data, evidence, relaxed, structured

- **Traditionalists or Silent Generation**
  - Born 1945 and before
  - Purchase influences: telling, brand emergence
  - Financial values: long-term savings, cash, no credit
  - Learning and training format: traditional, on-the-job, top-down, military style, didactic and disciplined

Source: *The 5 Global Generations Defined by Name, Year of Birth, and Social Influences*, Mark McCrindle

Evaluating what we read

Asking the right questions to better understand what makes consumers happy

We continually see articles that talk about demographics, geographies, products or services, but will the information in those articles help us make our consumers happy? Will it help us make the best decisions for our businesses?

We need to step back and ask ourselves specific questions:

- Are we reaching our current and prospective account holders with services and products they want to use?
- Do they feel that what we're providing meets their needs?
- Do we have a clear picture of who our consumers are?

Answering these simple questions helps make sure that you're attracting the right consumers and that they'll stay with you.
Millenials, Baby Boomers, and Gen X populations

Expand target markets to meet diverse consumer needs

When companies target millennials exclusively, they’re missing 246 million people in the United States who still need financial services products.

Millenials are currently the largest working population, replacing the 68 million baby boomers born between 1946 to 1965. That boomer generation is beginning to think about retirement and pursuing hobbies, and they need different financial products to meet their changing needs.

Then there are the 41 million in Generation X (born from 1966 to 1976). These are people with money to spend, have long-term relationships with their financial institutions, and are starting to plan for retirement and their children’s education, buying or selling a home, or purchasing wealth-management services.

Millenials are the first generation to truly grow up with technology, and they like to make decisions based on their own research as well as recommendations, so we need to consider these factors when deciding how to target them. They’re also getting married later in life, starting families and, in some cases, moving into their own homes.

Many millennials value experiences and strive to create a balance between work and life, meaning that traditional products and services ideally need to be tailored to their expectations.

Having an omnichannel strategy isn’t enough. Consumers want to be offered products and services that are personalized and take into consideration their fast-paced lifestyles. They also want the ability to self-select when and how they’ll interact with a financial services company.

US aggregate discretionary annual spend by generation (in billions)

<table>
<thead>
<tr>
<th>Generation</th>
<th>Spend</th>
</tr>
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<tbody>
<tr>
<td>Silents</td>
<td>$162.9</td>
</tr>
<tr>
<td>Boomers</td>
<td>$546.1</td>
</tr>
<tr>
<td>Millennials</td>
<td>$322.5</td>
</tr>
<tr>
<td>Gen Xers</td>
<td>$357</td>
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</table>
Offering more channels to capture the entire market

There are some variations in channels when breaking use down by age. Millennials use branches and drive-ups more times each month than either Gen Xers or boomers. Late millennials, ages 25 to 35, visited branches 4.6 times per month, much more frequently than the overall average of 2.9 visits across generations. And when it comes to important financial matters, millennials and Gen Z express a strong preference for in-person discussions.

But it’s not enough to simply have multiple channels available. Financial services firms must get account holder service right in each and every interaction. With most consumers using three or four channels to manage their finances, consolidating data and touch-point information is more critical than ever.

How consumers have interacted with their banking provider in past two years

- Visited a branch for a transaction
- Used an ATM
- Online banking (desktop computer)
- Mobile banking
- Visited branch for info/advice, question, open an account/loan
- Spoke to a representative over the phone

<table>
<thead>
<tr>
<th>Age</th>
<th>Visited a branch for a transaction</th>
<th>Used an ATM</th>
<th>Online banking (desktop computer)</th>
<th>Mobile banking</th>
<th>Visited branch for info/advice, question, open an account/loan</th>
<th>Spoke to a representative over the phone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age 60+</td>
<td>Dark purple</td>
<td>Medium slate</td>
<td>Dark purple</td>
<td>Dark purple</td>
<td>Dark purple</td>
<td>Dark purple</td>
</tr>
<tr>
<td>45 to 60</td>
<td>Medium slate</td>
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<td>Medium slate</td>
<td>Navy blue</td>
<td>Navy blue</td>
<td>Navy blue</td>
</tr>
<tr>
<td>30 to 44</td>
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<td>Navy blue</td>
<td>Light purple</td>
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<td>Light purple</td>
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<tr>
<td>18 to 29</td>
<td>Light purple</td>
<td>White</td>
<td>Light purple</td>
<td>White</td>
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<td>White</td>
</tr>
</tbody>
</table>
Relationships drive engagement

Payments provide opportunities

As consumer preferences continue to shift, financial institutions need to respond to demands for new technology. This is particularly evident in the rise of peer-to-peer payments, with apps such as PayPal’s Venmo gaining popularity. To capture fees and keep consumers loyal, many financial institutions are countering with their own offerings or securing technology from a vendor that provides such services. Financial institutions have banded together to create Zelle, which includes many of the nation’s largest banks on one peer-to-peer app that has overcome Venmo in payment volume, achieving $35B in 2019 with an average transaction of $258.

This year, LouAnne Alexander, the group president of payments at Early Warning, which operates Zelle, reports that Zelle is having particular success with credit unions and community banks.6

Jordan McKee, Research Director at 451 Research, says that payments are a path to a better experience for account holders and members. “As more and more functionality moves to the mobile device,” he says, “payment controls can go beyond the simple on/off debit card function. By integrating the appropriate applications, the financial institution can offer something closer to mobile-based control of consumers’ total payment experience within one app, no matter how or where they are transacting.”7

As more people gravitate to the convenience of peer-to-peer payments, more credit unions and community banks will need to add this channel to retain consumers and there are benefits for the financial institution as well. Payments generate income via associated fees and data from transactions. The data can be used to personalize the account holder and member experience and to capture insights into account holder and member behavior, which can then be used to develop product offerings to meet newly-understood needs.
Agile technology is critical for consumer engagement

Giving consumers the relationships they want is critical for engagement and keeping their business. Younger consumers are accustomed to shopping online for goods and services across categories, and that affinity for online interaction extends to their preference in banking. Fifty-eight percent are considering or would consider moving their accounts to a tech provider like Amazon or Apple because of the superior digital experience they expect these types of companies to provide.

By integrating agile technology solutions that can capture data from consumer interactions and help financial institutions tailor products and services to consumer needs, retail locations can innovate in a cost-effective manner. Integrating tellers, call centers, and sales staff provides streamlined cross-channel service that consumers have come to expect.

To accomplish this shift toward agility, credit unions and community banks have to change the way they make decisions. Historically, these financial institutions have looked inward to make decisions based on what will make their internal operations more efficient.

But an agile financial institution makes decisions based on what account holders and members demand. It is able to accomplish this because it has the technology necessary to capture data and use it to gain insights into those demands and respond to them rapidly.

Another fundamental element of agility is the ability to collaborate, adding, integrating, and removing technology partners as its business requires.

Top strategic priorities for retail banking institutions

- Improving ability to launch new products
- Mastering digital marketing and engagement
- Migrating client usage to digital from physical channels
- Cutting costs or improving margins on retail business lines
- Humanizing the customer experience
- Talent acquisition and retention
- Launching an open banking strategy
- Responding to regulatory requirements
- Hyper-personalization

Source: 5 Pivotal Technology Trends in Retail Banking. Bill Streeter.
Growing digital landscapes means location isn’t what it used to be

As digital use rises, geography isn’t as important as it once was for keeping some consumers. Many people now prioritize ease of app or web use as the main criteria for choosing a financial institution, as opposed to their proximity to a branch.

Investing in digital channels that are integrated and provide seamless data access to various parts of the financial institution can help firms become more competitive. This is particularly important as traditionally regional or specialist financial services firms are taking advantage of technology to move into different markets.

Some financial services firms are targeting niche markets or populations to increase their reach, particularly outside their traditional branch footprint. For instance, in 2019, Stanford Federal Credit Union partnered with Citigroup and Google to offer checking accounts accessible through Google Pay.

Financial services organizations that specialize in targeted markets or demographic groups are also moving to capture business outside their traditional business models, making them more competitive on a larger scale. Some consumers don’t mind having secondary relationships with financial institutions outside their geographies, while maintaining primary relationships with institutions in their locations.
“Banking deserts,” branch closings, and filling the gaps

Closing retail branches is a response to shifting consumer use as well as a way to cut costs. However, digital banking adaption creates an opportunity for financial institutions to acquire consumers in various markets and keep those in locations where branches are less available.

The challenge now is to seamlessly integrate information, promotions and products across channels. That way, financial institutions can capitalize on business from those who start the sales process digitally as well as those who physically walk into a branch.

Tips for executing an omnichannel strategy

1. Provide industry-leading customer or member service across channels. This can foster loyalty and allows consumers to choose the channel that best serves their current needs.

2. Target your marketing to specific events, such as retirement or those looking to buy a home. This increases reach by putting needed products and services in front of potential consumers when and where they need them.

3. Harness the insights of data, particularly on current consumers. By analyzing purchase histories, financial services firms can better predict consumer behavior. For instance, recent purchases of cribs or strollers can indicate a baby is on the way, and financial institutions can offer appropriate financial products to these families.

4. Make opening accounts, information access and servicing them equally accessible online and in branches. This will help capture those who research online or through recommendations, as well as those who head to branches in person.

5. Integrate, integrate, integrate. Banks that streamline processes and technology will more easily provide seamless consumer experiences across channels, creating a true omnichannel offering.
The importance of matching consumers with their preferred channels

As financial institutions determine the right channel mix, it's important to keep in mind that matching consumers with their preferred channels is a critical way to keep them satisfied. When consumers are migrated to channels they don’t want to use, engagement with the financial institution drops, according to a Gallup survey. This is particularly true for higher touch, more complex transactions such as wealth management, account opening and applying for a loan.

However, it’s tempting for financial institutions to try to move consumers to cut costs after reductions in fee incomes. With 80% of large-bank account holders considered unprofitable, moving them to use less expensive digital channels is a must to stay competitive.

The key to moving consumers between channels remains creating a consistent consumer experience.

Consumers are looking for speed and convenience as well as being able to tailor when and how they interact with financial services firms. However, there are distinct differences in demographics and locations that require financial institutions to tailor their offerings to meet personalization needs.

Loyalty drops if consumer is forced to switch channels

A major US bank’s episode Net Promoter Score, by starting and ending channel

- Opening a new checking or savings account
- Applying for a new credit card

Starting digital, ending digital
Starting digital, ending human

Conclusion

Summary of an omnichannel approach

Having an omnichannel approach continues to be the best way to make sure a financial institution is attracting and retaining consumers of all ages.

As people age, preferences and needs change, meaning that having branches continues to be an important part of the banking channel mix. Branches are also critical for account acquisition across geographies, but they continue to drop in importance for maintaining those ongoing relationships. Many consumers turn to branch banking for more complex tasks, such as wealth management and like the comfort of knowing the location is close, even if they don’t use it as often as before.

Engaging people via the channels they’d like to use is the easiest way to keep them as consumers, but the experience must be consistent across channels. Banks need to prioritize reducing silos and information sharing across locations, departments and service channels.

Top priorities should be to develop and refine a consumer-centric approach, optimize distribution and streamline operating models. Using data to target consumers based on lifestyles, current financial needs and other personal preferences is a key way for financial institutions to tailor products and services and deepen relationships throughout a consumer’s life.

By integrating processes and technology across departments and channels, financial institutions can easily provide seamless consumer experiences, creating a true omnichannel offering.
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References