FINASTRA

WHITE PAPER

THE PATHS OF LEAST RESISTANCE

Understanding Your Consumers Will Create Better Reach

THE FUTURE OF FINANCE IS OPEN

CONTENTS

EXECUTIVE SUMMARY

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.

Asking The Right Questions To Better Understand What Makes Consumers Happy

When we continually see articles regarding demographics, geographies, products or services, we need to take a step back and wonder if what they are stating is truly what will make our consumers happy and is best for our business.

Firstly, we need to ask:

- 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 customers and that they'll stay with you.

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, life-style 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, life-stage 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 https://www.slideshare.net/markmccrindle/generations-definedsociologically

Expand Target Markets To Meet Diverse Consumer Needs

When companies target millennials exclusively, they're missing 123 million people in the United States who still need financial services products[1]. And while there are 73 million people in the US age 18 to 34, the US population continues to age[2].

Millennials 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, as well as starting families and, in some cases, moving into their own homes[3].

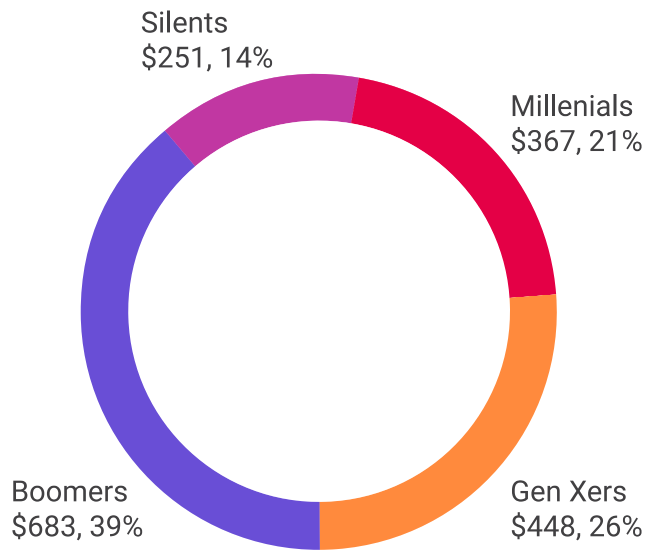
Many millennials value experiences and strive to create a balance between work and life, meaning that traditional products and services ideally need to be tailored to their expectations.

While millennials are quickly taking over as the largest working population, they're replacing the 33 million baby boomers (born from 1946 to 1954) and the 49 million in the boomers II category (born from 1955 to 1965). As this generation begins to think about retirement and pursuing hobbies, they'll 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.

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)



1. http://socialmarketing.org/archives/generations-xy-z-and-the-others/
2. http://www.catalyst.org/knowledge/generations-demographic-trends-population-and-workforce
3. http://www.npr.org/2014/11/18/354196302/amid-the-stereotypes-some-facts-about-millennials

Offering More Channels to Capture the Entire Market

Branches and websites are the two biggest sales channels in financial services, with most consumers (82%) opting to open accounts in person. For day-to-day banking, two-thirds of consumers use the web for checking balances, statements and transferring money. But when it comes to customer service, such as address changes, 51% still head to a physical location for those interactions[4].

There are some variations in channels when breaking use down by age. Younger generations—millennials and Gen X—tend to prefer web or mobile banking, while baby boomers still head to branches for their transactions[5]. But that isn't the entire picture since most people use a mix of channels for their needs, opting to check account balances online or via a mobile app and opening an account in the branch. When asked to pick a channel to give up, 53% of respondents to a Gallup survey said they would give up branch or call center interactions over digital options[6].

To add to that data—and perhaps in contrast to our own preconceived notions about millennials—Jason Dorsey, Millennials and Gen Z researcher and speaker, says, "In a recent study from our research center, the Center for Generational Kinetics, we found that over 70% of all millennials in the United States had physically visited a bank or credit union branch in the last 30 days."

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 for a vendor that provides such services.

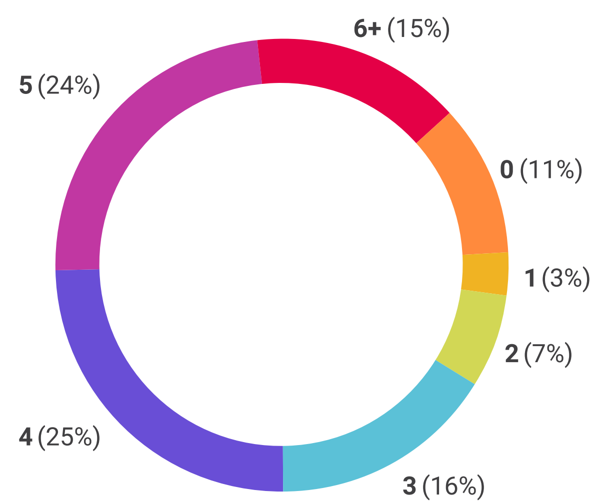
Banks have also banded together to create Zelle, which includes many of the nation's largest banks on one peer-to-peer app that directly rivals Venmo. As more people gravitate to the convenience of peer-to-peer payments, financial institutions—and particularly those that are not "mega-banks"—will need to add this channel to keep consumers and generate income via associated fees.

What is omnichannel?

Omnichannel is much more than just providing multiple ways for customers to transact. It is about a seamless and consistent interaction between customers and their financial institutions across multiple channels. While multichannel is focused on transactions, omnichannel focuses on interactions and includes:

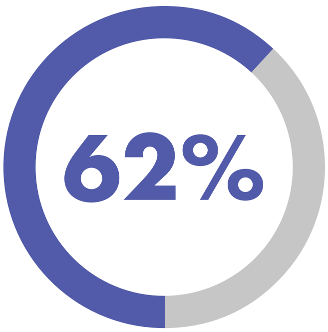
- Online Banking
- Mobile banking (including wearables)
- Branch
- ATM
- Call center (live agent)
- Call center (automated/voice banking)
- Email/IM/Chat
- Social media

Number of Channels Used by Banking Consumers

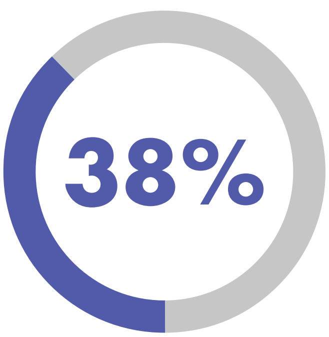


4. https://thebankwatch.com/2006/09/15/which-banking-channels-do-customers-prefer-forrester/
5. https://www.bai.org/banking-strategies/article-detail/the-age-divide-in-banking-channel-preference
6. http://www.gallup.com/opinion/gallup/182813/bank-customers-trade-personal-banking-digital-banking.aspx

Agile Technology is Critical for Consumer Engagement



of consumers surveyed by Gallup said they had the right mix of digital and personal interactions with their financial institutions



of consumers surveyed said they wanted different interactions with their financial institutions.

Giving consumers the relationships they want is critical for engagement and keeping their business. Of those surveyed by Gallup, 62% said they had the right mix of digital and personal interactions with their financial institutions, and 65% of these consumers were fully engaged with their providers. But of the 38% who wanted different interactions with their financial institutions, only 18% were fully engaged. So having the right channel mix is crucial for retaining consumers.

But it's not enough to simply have the channels available. Financial services firms must get customer service right in each and every interaction. With most consumers using three or four channels to manage their finances, consolidating data and touchpoint information is more critical than ever.

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.

7. **http://www.npr.org/2014/11/18/354196302/amid-the-stereotypes-some-facts-about-millennials**

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[8]. Many people are beginning to look at ease of app or web use as the main criteria for building relationships with financial-services firms, as opposed to how close they are to branches.

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 example, New York's Amalgamated Bank ran a promotion in 2016 partnering with national organizations such as MoveOn.org Civic Action and the YWCA to offer cash for new accounts to both the individuals and the partner organizations[9].

Financial services organizations that specialize in targeted market or demographic 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.

8. http://www.npr.org/2014/11/18/354196302/amid-the-stereotypes-some-facts-about-millennials
9. https://www.americanbanker.com/news/as-banking-goes-digital-how-much-does-geography-still-matter

"Banking Deserts," Branch Closings and Filling the Gaps

As regional players look to expand nationally, they can fill in gaps left by branch closings, giving them a cost-effective way to move into new markets and win share of wallet. Geographic shifts and financial institutions pulling back from different areas can create "banking deserts," particularly those outside cities. More than 6,000 bank branches closed from 2008 to 2016, according to the National Community Reinvestment Center, with rural areas and small towns seeing the most closings[10].

This can have an outsized effect on community lending. Branch closings reduce lending to small, local business by 8% for several years after they're shuttered and credit remains suppressed despite new financial institutions coming into the market, according to an October 2015 study by an economist at the University of California Berkley[11].

For example, in North Carolina, the number of full-service branches dropped 11.7% since 2009, with the majority of closings occurring in rural counties, or those that have an average of 250 or fewer people per square mile[12]. This creates opportunities to capture digital and online business, as well as expand community-lending relationships for those left in the market.

Closing retail branches is a response to shifting consumer use as well as a way to cut costs. But digital-banking adaptation creates opportunities for financial institutions to acquire consumers in various markets or 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 location.

Tips for executing an omnichannel strategy[13][14]

1. Provide industry-leading customer 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.

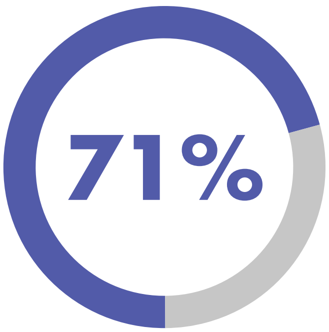
3. Harness the insights of data, particularly on current consumers. By analyzing purchase histories, financial services firms can better predict consumer behavior. For instance, recent purchases of cribs or strollers can indicate a baby is on the way, and financial institutions can offer appropriate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

10. http://www.ncrc.org/media-center/press-releases/item/1239-rural-communities-and-several-major-urban-areas-bear-brunt-of-bank-branch-closures-since-financial-crisis-with-emergence-of-86-new-%E2%80%98banking-deserts%E2%80%99-nc
11. https://www.reinvestmentpartners.org/wp-content/uploads/2017/02/Do_Bank_Branches_Still_Matter_The_Effect_of_Closings_on_Local_Economic_Outcomes.pdf
12. http://www.newsobserver.com/news/business/article114156083.html
13. https://thefinancialbrand.com/49745/bank-branch-future-shift-research/
14. https://thefinancialbrand.com/49745/bank-branch-future-shift-research/

The Importance of Matching Consumers with Their Preferred Channels



of consumers surveyed said they would use automated support to determine what type of account to open.

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[15]. 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 customers 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. A study from Accenture found that consumers are open to receiving computer-generated support as long as it can be personalized to their needs. For example, 71% of those surveyed said they would use automated support to determine what type of account to open[16].

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.

15. http://www.gallup.com/businessjournal/162107/customers-interact-banks.aspx?version=print
16. https://www.accenture.com/t20170125T114252__w__/us-en/_acnmedia/Accenture/next-gen-3/DandM-Global-Research-Study/Accenture-Banking-Global Distribution-Marketing-Consumer-Study.pdf

08 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.

About Finastra

Finastra unlocks the potential of people and businesses in finance, creating a platform for open innovation. Formed in 2017 by the combination of Misys and D+H, we provide the broadest portfolio of financial services software in the world today – spanning retail banking, transaction banking, lending, and treasury and capital markets. Our solutions enable customers to deploy mission critical technology on premises or in the cloud. Our scale and geographical reach means that we can serve customers effectively, regardless of their size or geographic location – from global financial institutions, to community banks and credit unions. Through our open, secure and reliable solutions, customers are empowered to accelerate growth, optimize cost, mitigate risk and continually evolve to meet the changing needs of their customers. 48 of the world's top 50 banks use Finastra technology. Please visit **finastra.com**

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