

THE FUTURE

of FINANCIAL SERVICES



"Americans want to be smarter with their money not just when they bank, but also when they shop, buy and plan."

- Forrester Research

Financial services — and specifically, the relationship between account holders and financial institutions (FIs) — has evolved over the years with changes in technology, account holder expectations and economic stability. For decades the only interested parties in this relationship were the account holder and their preferred FI, but now competing banks and third parties in the tech industry have raised the stakes by pushing the financial services industry in a much more competitive direction that focuses on user demand.

With so many players involved and with increased expectations from account holders (not to mention the amount of money in play), the future of financial services is constantly being calculated. Anticipating what the future landscape of financial services will look like becomes increasingly important as FIs look to please educated account holders who are seeking out exactly what they want.

So how will it work in the years to come? Where will the battle for banking relationships be fought for and won? Where will people go to procure the financial services they are looking for? Most importantly, how can FIs secure their future in the changing landscape? Predicting the future is never an exact science, but by analyzing

past trends and comparing them with present behaviors we can formulate an actionable forecast of the future of financial services and get a better idea of what it will look like further into the twenty-first century.

This forecast is particularly relevant to FIs whose main goal is to win the title of Primary Financial Institution (PFI) by adapting to account holders' changing needs and exceeding their evolving expectations. Any FI preparing for the future must stay ahead of the trends and adopt emerging technologies that better serve users' demands. By reducing friction and making the banking experience better — FIs are in the driver seat to becoming account holders' trusted PFI, and ultimately control their own destiny.

With the field of competition in the financial services industry widening and getting more fierce every year, it will be the early adopters who prevail. Those FIs that are truly committed to serving their account holders, by whatever means necessary, will continue to build lasting relationships with those they serve today and well into the future.

THE PAST

While the practice of banking is by no means modern (grain loans to farmers predate the Roman Empire), banking as we know it today is only recognizable after the turn of the 20th century when services like checks and credit cards began to be widely adopted. By examining changes in financial services like these, and by observing account holders' past behaviors, patterns are discovered and a glimpse of the future can be seen.

Past Account Holders

The most telling pattern revealed from observing the past is how well account holders responded to innovations within the financial service industry. In the last hundred years alone, there have been numerous advancements that have been welcomed and widely accepted by account holders.

It all started with the standardization and nationalization of checks in the 1930s, which grew steadily until it peaked in the late 1990s with 50 million check payments per year in the United States alone ^[1]. Modern credit cards entered the scene in the '50s and '60s and enjoyed exceptionally high adoption levels, eventually becoming one of the most preferred forms of payment. Financial services like ATMs and drive-thru teller windows started appearing on the scene around the '60s and '70s. All of these advancements made banking easier and more convenient, and as such, account holders grew to rely on them and migrated to FIs that offered an enhanced experience.

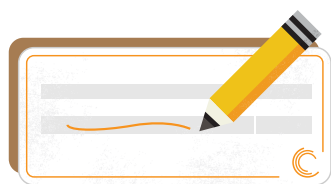
Past Financial Institutions

In the past, there were two main factors that contributed to an FI's continuing success — geographic proximity to their account holders and familiarity with those account holders. Before the Internet fundamentally changed the way businesses interacted with consumers, FIs survived and thrived by attracting nearby account holders and didn't need to do much to keep them coming back.

If an account holder opened a checking account at a given FI for their first job, they would generally continue to rely on that FI for future financial services (this trend continues today, but not nearly on the same level as before ^[2]). What drove these account holders to specific FIs were family tradition (banking where your parents bank) and familiarity (credit union branch down the street) — an easy win for FIs that were able to rely on the goodwill of simply staying nearby and staying in business.

For decades, there wasn't a whole lot that differentiated FIs from each other. They all provided basically the same services, albeit at different price points and with altering interest rates. There was no real threat outside of the other branch located down the street. This uniformity started to fall away as convenient new services were introduced, like credit cards, checks and ATMs.

Loyalty became even more fragile with the introduction of the Internet and online banking. When FIs first moved online, they further separated themselves from each other and began competing across town and even state borders. Account holders and FIs were no longer



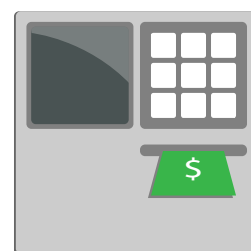
1930

Checks



1950's

Credit Cards



1970

ATM & Drive-Thru

More than just accepting innovations, account holders started demanding them. They did this time and again because of the new levels of convenience and control they enjoyed as a result. Past account holders accepted and adopted every financial service that reduced friction and made their life easier, even when that meant abandoning tradition, the old standard and even their financial institution.

confined by branch proximity, and both shared the freedom of building banking relationships online, and more importantly, outside of their geographical area.

However, when FIs first established an online presence, they adopted the look and feel of the web at the time, Web 1.0. The web of the '90s was static and difficult

to navigate. It looked nothing like today's interactive experience – Web 2.0 – powered by simple design, wikis, social media platforms, web apps and video sharing sites. The problem wasn't that FIs failed to adopt online services, but that they were slow to adapt and evolve with the advancements in web technologies.

In the early days of the Internet, the burden of effort fell to the users to do the work, to find what they were looking for, and to decipher whatever they found. The web was stationary and not designed specifically to draw users in or to provide significant offline benefits to users. Online banking and digital money management tools have mirrored the static nature of the early web for too long. Because FIs were so focused on providing the best possible branch experience, they were slow to create or facilitate an online experience for their account holders that matched the engaging experience they get when visiting sites like Amazon, Facebook and Twitter. The engaging branch experience that met the demands of past account holder's expectations has yet to translate into an engaging online experience today.

THE PRESENT

The current state of financial services is complicated. As of fall 2013, there are close to 7,000 FDIC-insured banks [3] and 7,000 credit unions [4]. Also, nearly 90 percent of American adults have formal bank accounts.[5] Analyzing all the behaviors and motivations of so many parties takes both credible data and careful consideration in recognizing outliers and statistical oddities. That being said, by answering a few key questions about general trends, a clearer perspective of the current state of financial services can be attained.

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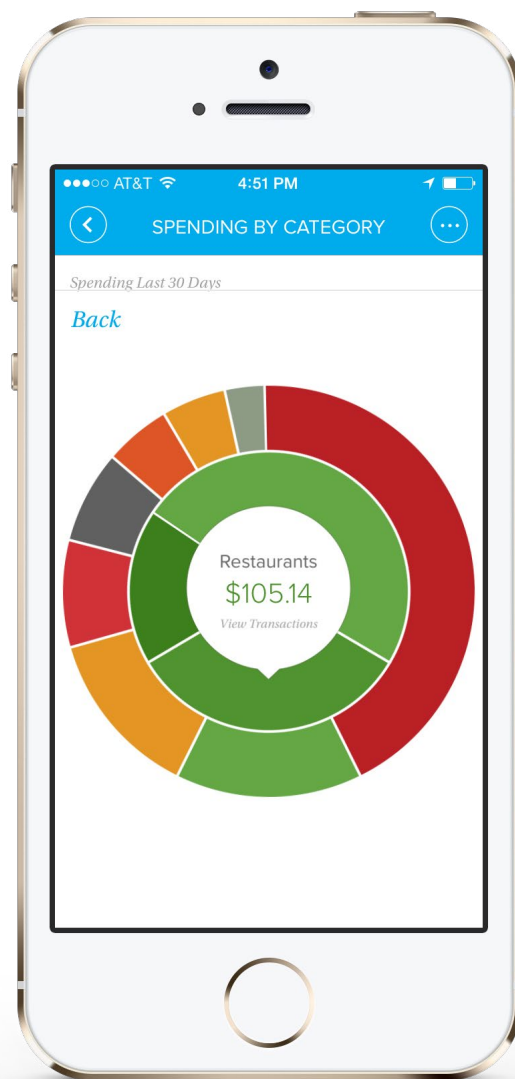
- Javelin Strategy & Research

Present Account Holders

One of the most visible consequences of the recent recession is that the average account holder is much more aware of, and careful with, their finances. According to a recent report, "Americans want to be smarter with their money not just when they bank, but also when they shop, buy, and plan" [6]. This concern translates into action, specifically in picking where they manage their finances. This renewed effort for responsible saving and

spending by today's account holders can be seen when answering the question: How do present account holders manage their finances?

Today's account holders are either using outdated tools like spreadsheets and ledgers, third-party solutions like Mint or tools provided by their financial institution. Thanks to advances with smartphones, account holders have embraced an *always-on* interactivity with their finances along with real time expectations. A smaller yet growing percentage of American adults are relying on these third-party-developed tools that empower this constant interactivity and convenience. The most current report lists a total of 26% of account holders actively using one form or another of online finance management tools [7]. The more account holders adopt smartphones and discover quality mobile financial management possibilities, the more this percentage will rise. As with past tools like checks and credit cards, if account holders understand and experience how these new services will eliminate friction and make financial management more convenient, helpful, fun and easy, they will start to demand it.



MoneyMobile for iOS

75%

*of American adults have relationships with **four or more** financial institutions.*

One of the most important questions to ask about today's account holders is: How are they choosing their financial institutions? While in the past familiarity and proximity used to be paramount, today's account holders are looking for an easier and more convenient way to manage their finances. Historically, American account holders have maintained multiple accounts at different FIs; to this day 75% or more of American adults have relationships with four or more FIs ^[8]. This practice of fragmented money management naturally creates friction and inconvenience. And, as present account holders look for reduced friction and more convenient solutions, they have already begun to move to trusted and innovative FIs.

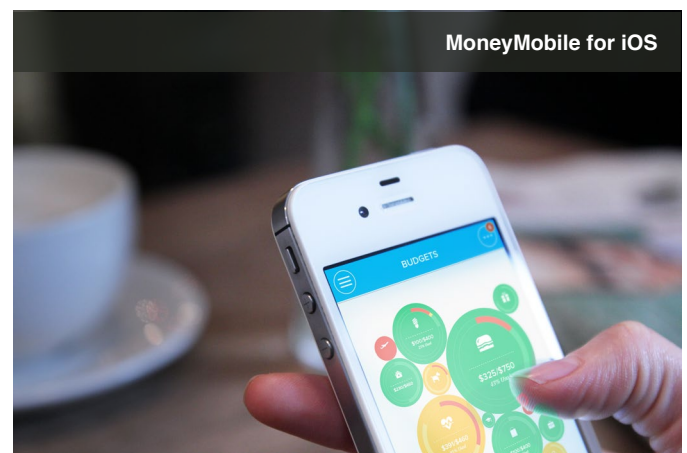
In the past, account holders were hesitant to ever change FIs. The FIs knew this, and used this knowledge to their advantage and spent less on retaining current account holders and winning over competitor's account holders. Today, however, account holders have shown they will take the necessary actions to change their loyalty to FIs offering more customized and convenient services, be that financial management tools, specific types of credit cards or other features. ^[9]

... What keeps them loyal?

With modern account holders more willing to jump ship to different FIs, it becomes important to figure out what keeps them loyal? This information becomes crucial for FIs in their effort to cultivate more loyalty, gain wallet share and retain account holders.

In the past, the most that was needed to keep account holders loyal was to meet their expectations for fair service. So long as they didn't feel like they weren't paying too much and felt that their money was safe, they remained loyal. Loyalty and trust between FIs and account holders will always be important, but innovative services like Bill Pay, mobile checking, Remote Deposit Capture and PFM are becoming just as important to account holders when deciding where to keep their accounts. As described earlier, this hunger for innovation was born of advances outside and within the financial services industry, and continues as more powerful, efficient and helpful financial management solutions become available. Never has it been more critical for a financial institution to innovate and fulfil account holders' expectations by providing convenient and engaging money management tools that enhance the online and mobile banking experience.

With those principles of loyalty building in mind, it won't be difficult to determine what prompts them to move. The answer can be summarized in two words: unfulfilled expectations. Unmet expectations are the first step toward moving, whether they stem from poor service or lack of engaging money management features. When account holders don't get what they want, that means they've identified exactly what they *do* want and now they know precisely what to look for when they move to a different FI.



Young and old, technology is key to an account holders experience.

So, who are the attentive account holders of today? They are a combination of older higher-income users, young and wealthy account holders, and the web-natives from Gen Y. While a few tech-savvy Gen Xers have shown their interest in current technology by trying out new digital services, the younger generations consisting of digital natives continue to wait for the ideal online and mobile money management solution. These younger demographics typically don't have much by way of assets and they continue to be wary of larger FIs. This generation is growing increasingly worried over their financial state and are eager for assistance and guidance. Capturing the attention and trust of this group would be the most forward-thinking strategy for FIs to pursue.



Present Financial Institutions

To understand the current state of affairs for FIs, it's important to know what their most important assets are? Quantities of loans, hard cash and liquid assets are easier to calculate, but market share, wallet share, account holder loyalty and brand equity are more difficult (and in the long-term more important).

It is no surprise that after a tumultuous financial decade, trust in FIs is low. How do FIs offset distrust? The best countermove to this skepticism is for a FI to show they are looking out for the best interests of their account holders. They can do this by helping their account holders feel they are just as important to the FIs and receive just as much attention as the profits and earnings.

This attention needs to be visible at all communication points with account holders, including ATMs, branches, official websites and mobile apps. What account holders want is service that is easy to access, has convenient management tools and includes readily available information about their finances. As financial services look to remove any friction between FIs and account holders, these channels of communication must be carefully maintained and constantly strengthened.

So, how can FIs strengthen the connection with their account holders? One of the most effective ways to strengthen this connection is to provide an engaging and effective online and mobile experience with a technology partner like MoneyDesktop. The name for this online and mobile money management solution is personal finance management, or PFM for short. PFM through MoneyDesktop is one of the most effective ways to increase account holder loyalty and position partner FIs as their account holder's primary financial institution. PFM not only provides useful finance management tools that account holders are demanding like the ability to see all their account balances in one place, but PFM users have a proven attrition rate of 2% while non-PFM users have an attrition rate as high as 6% ^[10]. To put that into dollars, FIs that provide an engaging PFM stand to save \$100,000 a year for every 10,000 PFM users.

The profits from PFM continue well beyond attrition rates. In fact, PFM users are 12% more profitable than account holders who don't use PFM, which equals an average profit per online account holder of \$363, or \$40 more than non-PFM users ^[11]. What consolidates loyalty and improves management abilities for the account holder increases profits for the FI—a trade-off not seen nearly enough when FIs are slow to innovate.

Account holders are moving to whichever FI is best prepared to meet their forward-thinking expectations. According to marketing services leader Jim Marous, these moves should propel FIs to focus on innovation. He states:

"The impact of channel migration is changing the foundation of banking as we know it, with banks now being carried in account holder's pockets and handbags wherever they go. This seismic shift in consumer behavior is prompting banks around the world to innovate their mobile offerings at breakneck speed." ^[12]

- Jim Marous

There is no point in denying there is a bottom line, so what can PFM do for the bottom line? It is important to remember that while PFM meets account holder demands, there are many more opportunities for revenue that come from the adoption of a top-tier PFM. The profits that come from a complete PFM solution include more effective cross selling opportunities, a wealth of new data for FIs, increased account holder retention and drastically improved costs savings. With the PFM solution offered from MoneyDesktop, these sources of profits only grow stronger the longer they are in place.

THE FUTURE

Account holders will continue moving to FIs that will give them greater control over their finances with the least amount of friction. While there have been some account holders who've quickly taken to the more management-focused online money management tools, wide adoption and use of PFM has not yet been reached. In a recent article, this slower adoption rate was connected to the fragmented view of PFM from the perspective of the FIs. This article suggests to FIs, "The more tightly money management is integrated into online banking, the more adoption you are likely to see."^[13]

customized, real-time data. Who knows what money management solutions will be possible in the distant future with unknown technologies, but there will surely be a need and place for PFM.

In the more immediate future it is safe to assume that with an increased reliance on smartphones comes an increased reliance on the web. Online banking can look to other industries that were consumed and evolved by the web. The web fundamentally changed computers, moved on to alter televisions, and now sets its sights on the wallet.

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- Forrester Research

FIs will see unprecedented success in the digital realm when they implement an innovative PFM and merge it with online banking, effectively creating a valuable money management experience that helps FIs provide incentives for financial responsibility. That is when account holders will start using and heavily relying on PFM in the same way they came to trust checks, ATMs and credit cards.

Account holders treat poor design and a bad user experience as immediate deal breakers in the adoption of PFM. Research shows that this attention to design and usability will remain constant, and is forecasted to

Not only do online/mobile banking and PFM need to join forces, but account holders and FIs will need to come together as well. When FIs provide an enhanced look and feel of money management with PFM, their account holders enjoy a stronger and more useful connection to their FI. This will boost brand equity for the FI and encourage account holders to consolidate their loyalty — another rare win-win for financial services.

Future Account Holders

Fueled both by the ever-increasing reliance on digital channels and the overall distrust from the financial crisis leading to increased interest in personal finances, there will be a clear interest in PFM. This interest will quickly become a heightened expectation, but one that can be easily understood and met.

Account holders and society as a whole will grow more and more dedicated to their smartphones. There is no sign of this trend slowing, but when account holders do move on from smartphones to wearable tech or the next gadget, it will surely be to a device just as focused on



Winning the heart of account holders requires providing quality technology that naturally fits in their digital lives.

become even more important to account holders in the future. Leading research shows "consumers by and large expect their banks to meet their needs and be easy to do business with, but it takes enjoyment to win their hearts,"^[14] — enjoyment that only comes with ease of use and intuitive design. *Wow-factor* tools like interactive budgets and real-time expense trackers allow account holders to interact with their money in ways they've never done

before and they help account holders find real enjoyment in financial management.

Account holders ages 25-34 are the most interested in all aspects of PFM, according to the latest research ^[15]. This demographic will become wealthier and more influential in the future, so their increasing interest in PFM will dictate future financial service plans for FIs. Providing convenient and engaging PFM to this target group will unlock higher profits and help position innovative FIs as their primary financial institutions.

Whether at their parent's FI of choice, the FI across town, or with the help of a third party technology giant, one way or another account holders will get the enhanced banking experience they want. The pressure is on the FIs in the future to meet those expectations.

Future Financial Institutions

The future for FIs is summed up by a financial service thought leader as follows: "Banking leaders must choose to adapt and evolve, or risk irrelevance." ^[16] The threat to innovate or perish has hit retailers, journalists, entertainers and now financial institutions. So how exactly can these FIs prepare for the future?

In the past, FIs needed to stick to what they knew best (providing a safe place to store money, transfer funds and make loans). But in the future, FIs need to partner with technology experts to assist them in doing what digital experts do best: making seamless apps and sites that provide a wealth of information and tools for both account holders and FIs. FIs will have to double-down on their specialties and put all their energy and efforts into providing the best possible online and mobile financial services.

"It's clear that we are moving toward an era of engagement banking – a marketing, sales and service model that deploys technology to achieve customer intimacy at scale."

- **Bradley Leimer**

According to digital channel strategist Bradley Leimer, "It's clear that we are moving toward an era of engagement banking – a marketing, sales and service model that deploys technology to achieve customer

intimacy at scale." ^[17] When this quickly-approaching era of banking arrives, FIs will have to work harder than ever to secure and maintain account holders. If current FIs need to innovate and stay honest to retain loyalty today, then future FIs will need to continually innovate and prove their honesty and value to account holders. This will be accomplished with proactive customer services. This will be done by intimately understanding their account holders.

The key to knowing their account holders better than ever will come from insight available only with a powerful PFM. FIs can act on that knowledge to provide personalized advice and offers. Imagine this: Instead of spending the \$250 dollars FIs currently spend to acquire, retain and upsell each account, if they could better guide account upgrades with actionable data and accomplish the rest of their goals, all with one feature? That feature is PFM. ^[18]



MoneyDesktop's upcoming products INSIGHT & TARGET, leverage PFM data to better market to account holders.

Successful FIs in the future will better know their individual account holders and collective consumer segments and will service them uniquely. According to Jim Marous, "Banks have a legacy of talking to the masses and giving services away for free. Without better segmentation and an understanding of what account holders will pay for, the impression of any revenue initiative will be negative." ^[19] Again, that power can be harnessed with PFM.

It is increasingly clear that PFM won't be just a one-off service, but the foundation for a bank's or credit union's online and mobile channels. In fact, according to the business case for PFM, "Money management is rapidly evolving to become not just a feature of digital banking but the core functionality of many online banking and mobile banking services." ^[20]

Early adoption of PFM and strategic partnerships with technology providers will give FIs the best chance for future success. In fact Bank of America and PNC Bank are seeing results already with their commitment to online banking and PFM. FIs that fail to adapt early on won't be competing against just other innovative FIs, but with third party developers, data companies and tech leaders that are making profit generating products and services that are exceeding account holder's expectations.

Committing to adaptation and evolution are the best courses of action, because as account holders change what they want and technology shows no sign of letting up or leaving the financial services industry alone. The future of financial services will be measured by FIs commitment to making PFM profitable, simple and intuitive. FIs will need to provide or facilitate a service that simultaneously acts like an information aggregator and a financial advisor, all while providing privacy and safety.

CONCLUSION

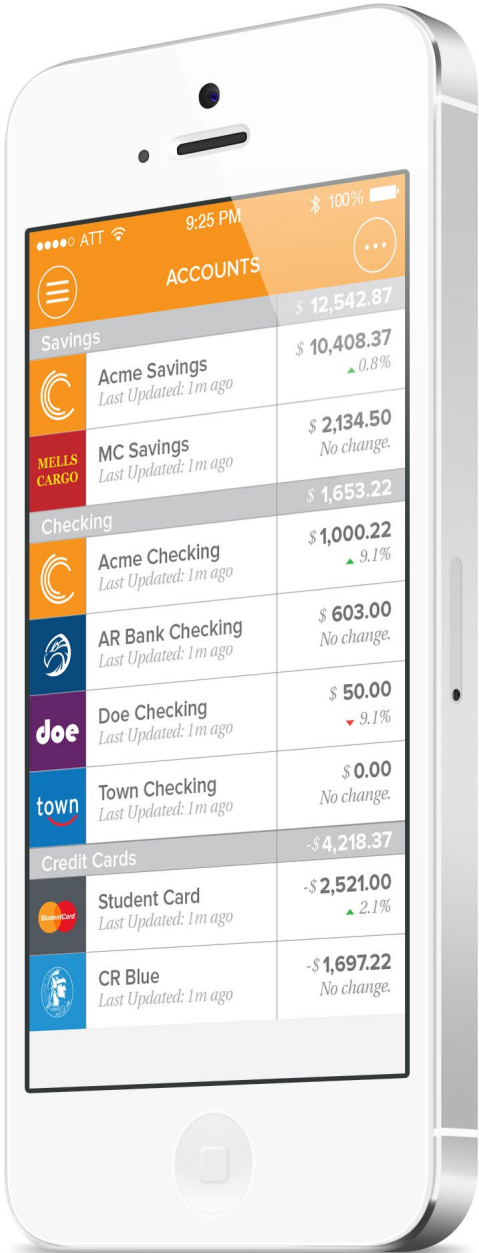
For the brightest future in financial services, innovative solutions will need to be available to provide actionable data to FIs and financial power to account holders. These innovative solutions will be more than just a new website feature or a stand-alone app, but will present a comprehensive solution to the problems facing FIs of low trust and shifting allegiances.

With an understanding of the information and loyalty most important to FIs, these solutions will need to be as modern and state-of-the-art as possible. After all, when it comes to user adoption, it depends on how it works. The best intentions need to come through with the best interface and usability. The reward for this option is described in one of the latest studies on PFM ^[21] in the following excerpt:

"FIs that provide PFM that enables customers to gain greater control over their money stand to be rewarded with a multifaceted ROI that starts with deepening engagement and developing profitable relationships through cross-selling financial products, but also includes reduced churn, reduced risk of fraud, and reduced operating costs by eliminating paper and boosting the use of digital channels."

- Javelin Study & Research

With the help of PFM, the future of financial services is bright and full of potential. Today's account holders are paying more attention to their finances and have shown their willingness to change FIs to manage their finances exactly the way they want. It will be the innovative banks and credit unions that meet those demands with an engaging money management experience that will win wallet share and loyalty, and will shape the future of the industry.



MoneyMobile can be customized to match any brand.

APPENDIX

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