THE BUSINESS CASE FOR FINANCIAL WELLNESS IN FINTECH

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Not too long ago, watching a movie meant jumping in your car and driving down to the local Blockbuster hoping that the movie you wanted to watch wasn't already checked out. At its peak in the early 2000s, Blockbuster had more than 9,000 physical locations and more than 60,000 employees. By 2010, they had gone bankrupt. So what happened? Some argue that stiff competition from Netflix and Redbox was the cause, but ex-Netflix CFO Barry McCarthy gives a different reason.

"I remembered getting on a plane, I think some time in 2000, with Reed [Hastings] and [Netflix co-founder] Marc Randolph and flying down to Dallas, Texas, and meeting with John Antioco," McCarthy said in an interview[1]. "Reed had the chutzpah to propose to them that we run their brand online and that they run [our] brand in the stores and they just about laughed us out of their office. At least initially, they thought we were a very small niche business. Gradually over time, as we grew our market, his thinking evolved[2] but initially they ignored us and that was much to our advantage... You end up competing with a business that you initially ignored."

Fast forward to 2016, financial institutions find themselves under similar circumstances thanks to financial technology, or fintech. Not only has the way we interact with money changed; fintech is making it easier and more convenient for customers to make those interactions. Can financial institutions adapt or will they become the next Blockbuster?

Financial institutions look to catch up

Unconventional branch hours and long wait times are just some of the reasons physical banking is becoming less appealing to consumers. Before fintech, people had to rush to banks and wait in long lines just to deposit a check. Since the emergence of fintech, simple banking transactions can be done anywhere. It is now easier, faster, and more efficient to bank online.

PayPal was one of the first fintech companies in existence. They went from being eBay's little brother to an online giant that is now used by millions of people around the world to transact money. Fueled by PayPal's success comes the emergence of fintech--an economic industry aimed at making financial services more efficient. One of the tools born from fintech is personal finance management, or PFM. These tools are meant to concentrate different banking features into a single location, making it easier for people to manage their money. Tools like Mint and e-commerce platforms like Square offer banking services at a fraction of the cost.

This doesn't mark the end for financial institutions, but it does mark the end of traditional banking as we know it. Thanks to the compliance and money-transfer systems on which apps like Google Pay are built, financial institutions can rest assured that they won't be disappearing anytime soon. However, they will have to work incredibly hard to reassert their dominance in the banking sphere.

How it happened

Before the fintech boom, financial institutions relied on steep regulations and the need for physical locations as the main advantage for their dominance. Without any viable threats, most financial institutions focused on selling services and driving down costs rather than developing the user experience.

Now, a person's interaction with money is essentially invisible. Consumers are no longer interested in the one-stop-shop financial institutions have become. Instead, they want their banking experience to fit seamlessly into their everyday behavior.

Fintech has raised consumer expectation by creating personalized and integrated banking solutions that are easier and less expensive. Outdated business systems have kept prominent financial institutions from developing similar banking experiences. As a result, they experienced a decline in mobile banking satisfaction in 2015[3]. While fintech companies may not be able to compete with the infrastructure and regulatory systems of financial institutions, they're certainly giving them a run for their money. Companies like Wealthfront and Mint are stealing a highly profitable share of the market that financial institutions spent billions of dollars to acquire. A report by Goldman Sachs estimates approximately $4.7 trillion in annual financial institution revenue and $470 billion in profit is at risk of being lost to fintech[4].

What is PFM?

Financial institutions will need to buy the competition[5] , strike strategic partnerships with fintech companies, or develop their own personal finance management (PFM) hub. But what exactly is a PFM?

A PFM refers to software that helps consumers manage their money. These tools normally allow users to view aggregate account information from multiple financial institutions in one place. Data visualization, budgeting tools, and financial education are just some of the features that can be offered in a PFM. Millions of people are embracing online PFM tools, and their growing popularity gives financial institutions an impetus to adapt quickly.

Benefits of PFM:

For those who have realized the potential of PFM tools, the benefits are overwhelming. Personal Finance Management tools offer three areas of benefit:

1. Customer satisfaction
2. Customer loyalty and retention
3. Direct revenue generation and cross-selling opportunities

Customer satisfaction[6]

- 76% of users say they have better control over their finances thanks to PFM
- 72% of users say they know exactly where all of their money is
- 66% of users say PFM has helped them understand where they can make improvements
- About 41% say they have more money as a result of PFM
- 28% of users are paying less late fees on their credit cards and 23% are paying less overdraft fees
- Over 80% of users are “pleased” or “highly pleased” with PFM[7]
- 88% of users say they will use PFM regularly in the future[8]

Customer loyalty and retention:

- Annual customer retention rates are 98% among PFM users[9]
- 25% of PFM users say that they’re less likely to switch to another financial institution.
- Some banks have seen a reduction of up to 50% in closed accounts following the introduction of PFM.
- PFM increases time spent on online banking by 100%

Direct revenue generation and cross-selling opportunities:

- PFM users own higher value financial products[10]
- PFM users increase deposits over time[11]
- Active PFM users increase their total number of accounts (current, savings, credit card) by on average 19.4% after using PFM for one year[12]
- PFM users on average opened 4 times as many financial products as customers without PFM[13]
- Revenue from the average PFM user grew 5.5 times faster than customers without PFM[14]

According to Forrester, mid-sized banks recorded over $10M USD in revenue from these three sources as a result of implementing a PFM[15]:

1. Cost savings from increased online banking usage
2. Revenue resulting from increased customer retention
3. Increase in cross-selling opportunities

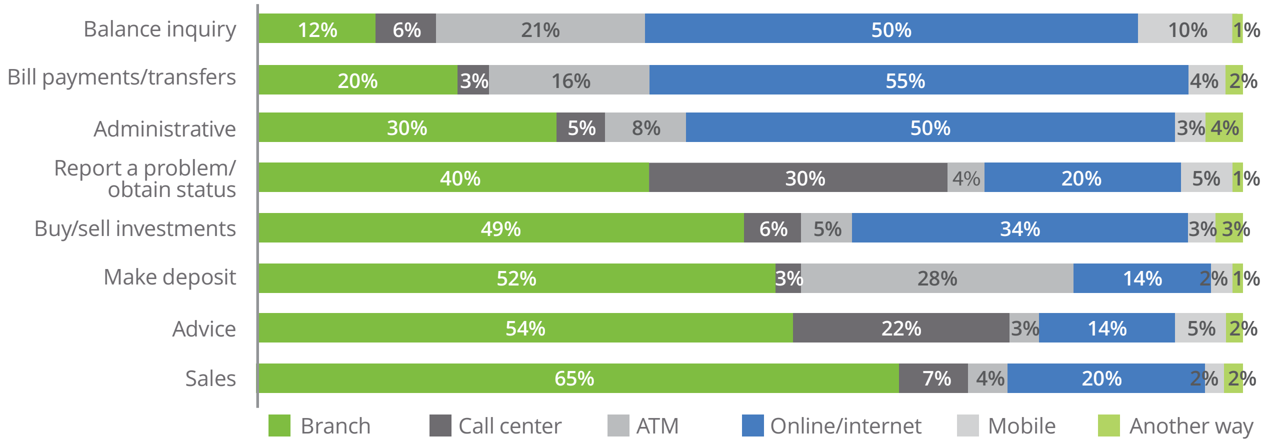
Key opportunities for Financial Institutions

The primary goal for financial institutions is to make the customer experience as simple and clear as possible. One major reason PFM tools have garnered so much attention is because consumers are able to perform standard banking transactions from their phones.

Customers want a seamless day-to-day banking experience, which is why easy-to-access features like online banking and ATMs are by far the most popular banking channels for customers (figure 13). However, when it comes to things like financial advice (54%) and sales (65%), most people would rather speak with a real-life representative at their branch. While branch representatives are still an important component for banks, financial advice will eventually shift toward digital.

“We expect this trend to continue toward mobile application and interaction as technology, user experience, and expectations continue to evolve,” says Dustin Limburg, Director of Marketing for Student Choice Credit Union.

Percentage of channel preference by task among all customers



This is a condition that financial institutions can take advantage of. Not only is it necessary for them to adapt, digitizing features like sales and financial advice is less expensive and can provide a competitive edge over the fintech industry.

Financial wellness, in particular, is something customers are interested in. A financial wellness platform can serve as top of funnel solution that drives only the most qualified inquiries to real-life representatives. Not only does solution help reduce manpower in call centers, it also helps increase customer satisfaction by reducing the need to talk a real-life representative.

"We've found, internally, and in discussing financial literacy and wellness with our partner credit unions, that financial help continues to be a concern amongst members and young adults preparing to attend college," says Limburg. "In our first year of rolling out the iGrad [Financial Wellness] solution to our partner credit unions, with very little promotion, we received nearly 5,000 users to the sites."

Some financial institutions have already implemented financial education features in the form of calculators, blog articles, and FAQ sections. However, many of these features don't focus on the user experience and fail to offer personalized advice, making it hard for people to derive any kind of benefit.

In essence, member-facing online features present an opportunity to demonstrate clarity and ease of use, which becomes a market differentiator for those looking for financial services.

Financial education should be the responsibility of financial institutions and not fintech. It is to their advantage that they be at the forefront of helping members make financially healthy decisions. The effects can be measured through

> ***Increased customer loyalty, higher usage, lower costs and added revenue.***

Dustin Limburg explains how Student Choice Credit Union has benefited from this. "We have however seen in a recent study of more than 8,000 borrowers at nine different credit unions, a Student Choice borrower is far more likely to have a checking, savings, loan, or other account relationship with their credit union than someone that borrowed elsewhere."[16]

According to the Brand Simplicity Report by Siegel +Gale, financial institutions scored 517 of 1,000 or 19th of 25 industries, indicating a strong need to simplify its business processes.. Not only are consumers asking for easier ways to conduct transactions; the same report found that 41% of people are willing to pay for these services.[17]

> ***In a world crowded with complexity, simplicity stands out. It brings clarity instead of confusion, decision instead of doubt. And the rewards are real. Simplicity inspires deeper trust and greater loyalty in customers, and clears the way to innovation for employees.***
>
> Siegel+Gale Simplicity Report

"It has always been a driving value of Student Choice to not only provide financing solutions, but to provide sound financial advice to go with it," says Dustin Limburg.

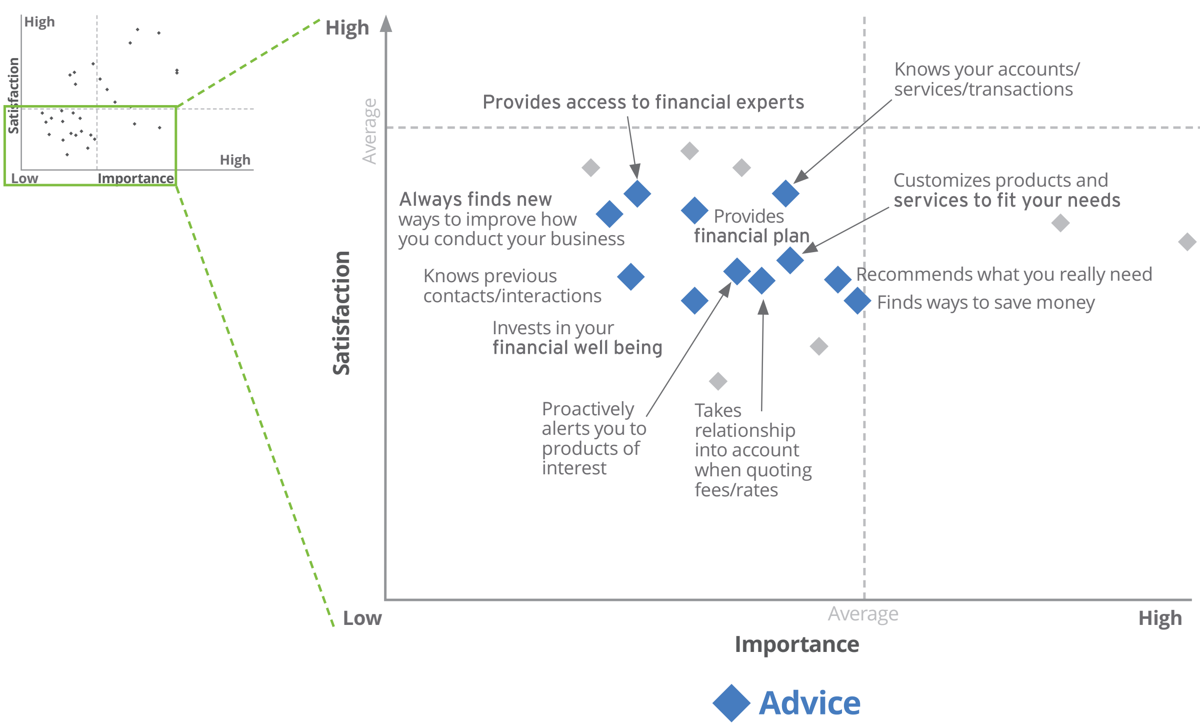
> *In the past few years with iGrad, Student Choice has been able to offer a much more robust and modern approach to financial wellness that has helped us reach and impact many more families.*

We will certainly continue to support the financial well-being of the members of our partner credit unions."

The Brand Simplicity index evaluated 12,358 participants on the simplicity of their interactions with 585 different brands. Participants rated "understanding when I'll be charged fees or how I can avoid fees" as the most intricate touch point of the 10 different touch points evaluated, corroborating the need for financial education as a member-facing service.

Opportunity 1:
Help customers make financial decisions

Benefit importance and satisfaction



Larger diamonds indicate the benefits discussed in this section.

Financial institutions have an extraordinary opportunity to differentiate themselves from fintech. As noted in figure 15, the member-facing services with the lowest satisfaction ratings all relate to building a personalized experience that will improve the customer's financial well-being. If financial institutions focus on providing a personalized financial wellness solution, they'll be rewarded through customer loyalty and engagement. However, if these items go unaddressed, fintech will focus on providing these features, further infiltrating the financial market.

"The more we integrate financial literacy content, educate consumers, and simply promote the availability of free resources, our user traffic continues to rise, as does our partner credit union interest in leveraging this valuable content to help their members" says Dustin Limburg.

Engagement drivers - what customers would be willing to do if their PFSP offered a much better experience

Opportunity 2: Leveraging Data

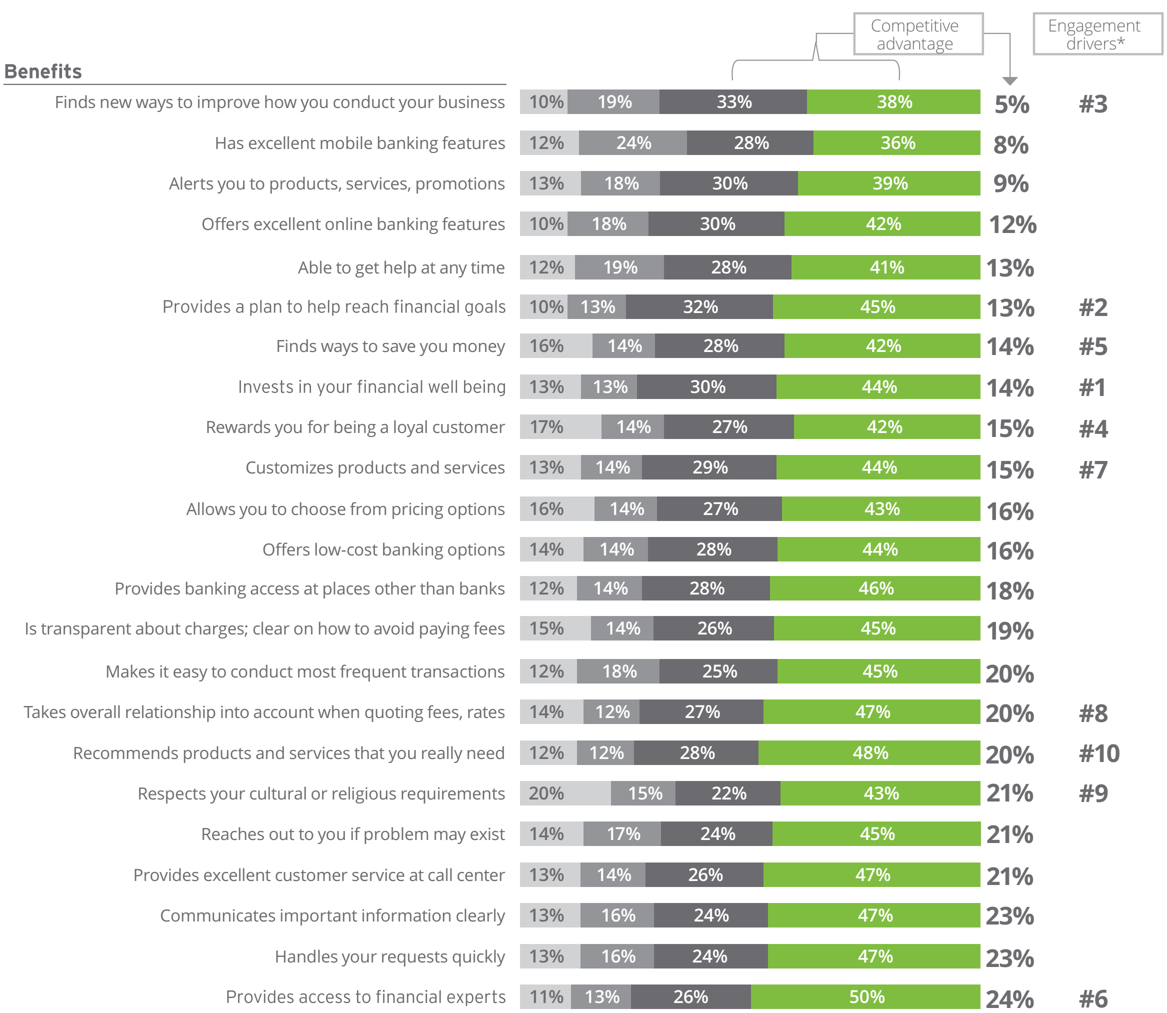
Data collection is another important benefit to having a member-facing financial wellness platform. Not only can these data help identify trends, behaviors, and risk factors, they can also be leveraged to optimize sales processes and provide customers with a personalized banking experience. By leveraging trends and risk factors, financial institutions can help customers manage their finances or recommend suitable financial products that can.

Customers have a natural willingness to engage with financial institutions that are willing to invest in their financial well-being. This means customers are willing to reciprocate by investing in additional services and accounts, increasing their deposits and investments, and in some cases, paying a little extra in fees.

According to EY's Global Consumer Banking Survey, customers ranked the following two benefits among the top three benefits for which they would increase their engagement with their financial institution[18]:

Invests in customers' financial well-being
Finds ways to improve how customers conduct business

Type of organization best able to meet customers' needs, ranked by banks' competitive advantage



Fulfilling these opportunities requires going beyond conventional banking practices. In a report published by Filene, credit union execs give recommendations on how to get it done.[19]

Experiment with the sharing economy as a strategy for growing member well-being. As members focus more on use and less on ownership, consider how the credit union can responsibly finance life activities (education, small business, transportation) and not just asset purchases.

Rebrand the credit union as a knowledge transfer hub that places the credit union at the center of members' financial lives by allowing them to trade peer advice and insights about budgeting, buying, retiring, and saving.

Go beyond member satisfaction scores and credit union organizational history in order to grow community impacts through "member returns" in addition to basic interest payouts, financial capability programs, payment deferral during community emergencies, and working with members facing life-cycle challenges.

Target particular segments for impact work and measure such impacts, for example, through financial literacy and accounts management for members who are now vulnerable (such as pre–high school children, young adults, retirees, and the elderly).

Financial Wellness: The necessary addition to Fintech

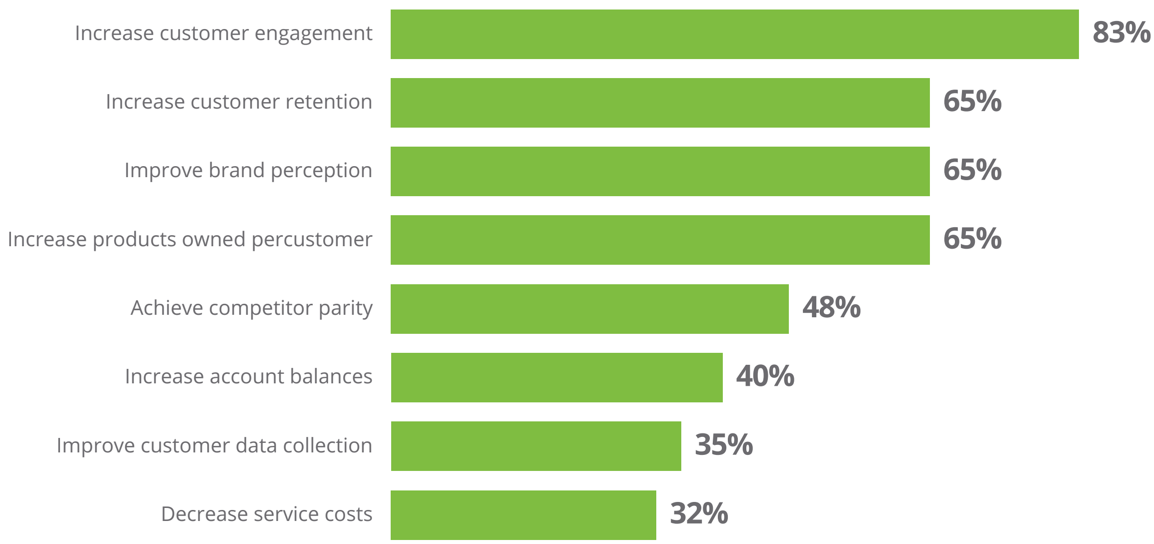
Spending thousands of dollars to implement PFM tools into an online portal is not enough. As it stands, PFM tools are meant to provide innovative features that fit seamlessly into the lives of consumers--making money management easier and more enjoyable. However, PFM tools are necessary but not sufficient for managing money. Without the financial knowledge necessary to make healthy financial decisions, even the best tools have little to no value.

PFM tools are far from being a "complete solution" for helping people become better at managing their money. According to Director of Research at Cornerstone Advisors Ron Shevlin, "(Yet), more than 10 years after financial institutions began implementing online PFM capabilities to help their customers create and manage budgets, categorize and forecast spending, and view budgets and spending in pretty charts and graphs, the promise of PFM has yet to be realized."

Pretty charts, budgeting tools, and categorization of expenses don't make consumers better at managing their money. In order to maximize the potential of a PFM tool, financial institutions must give consumers a sense of confidence by educating them on this matter.

"Almost half of all Americans ... say they don't look to their primary [financial institutions] for help managing their finances and therefore don't care if the [financial institution] offers tools to help them do so," says Shevlin. "As many banks and credit unions have learned the hard way, a 'build it and they will come' approach to deploying PFM produces little in the way of bottom-line results for financial institutions."

Percentage of credit unions that consider the following to be very important business objectives of PFM (n=54)



Source: Aite Group survey of 54 credit unions, January 2010

According to another report by the Aite Group, 83% of credit unions surveyed consider customer engagement as the top business objective. Where PFM tools fail to engage consumers, financial wellness platforms pick up the slack. A proper financial wellness platform should consist of the following components[20]:

The Buyer Journey

The world is no longer sales-centric. Pressuring people into making financial decisions is now considered a poor practice. Selling is about optimizing the buyer journey, which requires a deep understanding of customer. By understanding demographics, behavior patterns, motivations, and goals, a financial institution can offer personalized financial advice that is relevant to the individual. Though the ROI of helping customers is not easily discernable, this kind of relationship will surely yield results. According to the Harvard Business Review, the easier the buyer-journey, the more likely a consumer is to buy[21].

Timely

If budgeting tools and account aggregation were the only thing consumers needed from their financial institutions, PFM usage rates would be higher. What consumers really want and need is help making financial decisions. Many financial institutions have attempted to educate their customers by providing resources on their websites. However, maintaining a personalized content stream that is not only applicable to all members but is presented to them at the right time can be difficult and expensive. Instead, financial education should be personalized and presented to the customer before, during, and after making a financial decisions.

Gamification - Rewarding and Fun

Over the past few years, financial institutions have offered financial incentives to get customers to use PFM tools. However, these incentives need to go beyond simply logging in. Customers should be rewarded for applying healthy financial behaviors such as setting up a budget, saving money or reading a resource. According to a study conducted by Gigya, adding a gamification component to your website increases engagement by almost 33 percent. In fact, after analyzing billions of user actions with companies like Pepsi, Nike, and Dell, gamification increased commenting by 13 percent, social sharing to networks like Facebook and Twitter by 22 percent, and content discovery by 68 percent[22].

Reduced call volume

Most financial institutions struggle with the demands of maintaining good customer service in their call centers. High call volumes can overextend the reach of call center reps, leading to a poor customer experience. According to Bain Insights--a management consulting firm--50% - 70% of calls are avoidable. However, a lack of resources by financial institutions keeps call volumes high[23].

Peter Schmitt of PSCU Financial Services says “the typical cost per contact falls into a range of $3.30 to $7.70 per call. The acceptable range is $3.18 to $5.30 per call.”[24]

A bank call center with 5 agents who each answer 30 calls per day will yield 47,000 calls per year. At an average of $3.18 to $5.30, that comes out to $149,000 to $250,000 per year. If at least 50% of calls are avoidable, that’s a lot of money being wasted.

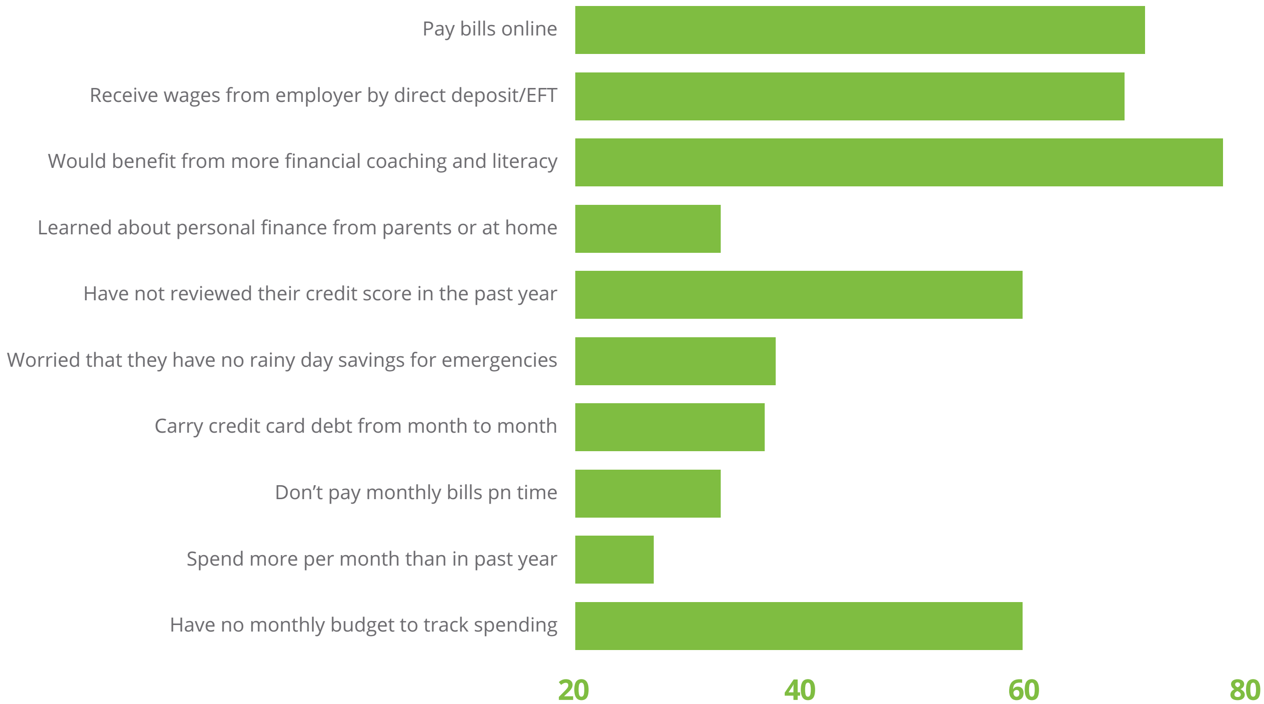
By investing in a financial wellness member-facing platform, financial institutions can decrease their call volume by filtering out “avoidable” calls and, in turn, increase customer service satisfaction.

Leveraging customer knowledge

Many financial institutions implement FAQ sections on their websites as a way of answering basic customer questions. However, many of these pages are not only hard to find but are often outdated. Financial wellness platforms like Enrich.org offer community-driven and expert moderated message boards that not only help financial institutions monitor the latest FAQs affecting their customers, they also help drive customer satisfaction and increase engagement. Aite Group research shows that the most engaged employees are also the most loyal, which increases the likelihood that members will grow their relationship with their financial institution.

Engaging our youth

Failing financial literacy or resilience in the United States



Many of us inherit our family's financial knowledge and inability to talk about money. A Harris survey (figure 6) found that many of our financial deficiencies stem back to what we learn (or don't learn) at home. A Genworth Survey found that most middle-class families in the US aren't teaching basic financial concepts such as budgeting and saving[25].

For younger people, the money stigma needs to be broken. Government efforts around the country have inspired mandatory courses for high school students as a condition for graduating. Even then, these efforts still leave a sizeable amount of our youth without any form of financial education--an education that is required at all stages of life.

Financial institutions have an opportunity to be the intervention between financial illiteracy and financial capability. By providing the younger generation with financial advice, financial institutions are in a unique situation to attract new customers while fostering lifelong relationships.

Our financial services future

By the year 2025, financial institutions will be member-facing brands. Though they will continue to offer traditional banking services, most transactions will be done online through web portals and apps. Consumers' rising demands will push financial institutions to constantly develop and improve on their products.

"For this line of program, the most popular channel is certainly online via a PC. However, both mobile and tablet traffic is rising to nearly one-fourth of the aggregate traffic. While the applications are mostly completed online via PC, much of the research is being done via a mobile device. We expect this trend to continue toward mobile application and interaction as technology, user experience, and expectations continue to evolve," says Limburg[26].

Whether they develop a program in-house or outsource to a third party startup, one thing is clear: Financial institutions must adapt or risk becoming the Blockbuster of financial institutions.

Annotations

1 *http://tusb.stanford.edu/2008/01/barry_mccarthy_chief_financial.html*

2 *http://news.cnet.com/Blockbuster-takes-aim-at-Netflix/2100-1025_3-949024.html?tag=mncol;6n*

3 *http://www.jdpower.com/press-releases/2015-us-retail-banking-satisfaction-study*

4 *http://www.betandbetter.com/photos_forum/1425585417.pdf?PHPSESSID=7406416a94128a8eca87ec315399c75c*

5 *http://www.investmentnews.com/article/20150325/FREE/150329948/northwestern-mutual-purchases-learnvest*

6 *https://filene.org/assets/pdf-reports/225_Shevlin.pdf*

7 *Sources: Online Banking Review; Javelin Research; American Banker*

8 *http://www.slideshare.net/groegl/pfm-is-the-future-of-online-banking*

9 *"Case Study: The Bottom-Line Impact of Offering Online Financial Management." Swimming Upstream, April 2010. Visit http://www.swimmingupstream.com/resources.php*

10 *http://media.mx.com/resources/2015/5/27/traditional-pfm-is-dead-welcome-to-the-new-world-of-digital-money-management*

11 *"Case Study: The Bottom-Line Impact of Offering Online Financial Management." Swimming Upstream, April 2010. Visit http://www.swimmingupstream.com/resources.php*

12 *https://www.islandsbanki.is*

13 *https://www.edgeverve.com/finacle/resources/finacleconnect/Documents/FCIssue24-building-tomorrows-bank.pdf*

14 *http://www.inntrend.com/uploads/5/8/6/0/58608053/bank_of_montreal_case_study.pdf*

15 *Forrester Research (2014), Justify Investment In Digital Money Management*

16 *Dustin*

17 *http://simplicityindex.com*

18 *http://idg.bg/test/cfo/2014/2/19/585-GCBS_report_2014.pdf*

19 *http://assetfunders.org/images/pages/346_Harness_Transparency_Filene.pdf*

20 *https://filene.org/research/report/member_tech*

21 *https://hbr.org/2012/05/to-keep-your-customers-keep-it-simple*

22 *http://www.gigya.com*

23 *http://www.forbes.com/sites/baininsights/2015/09/23/how-bank-contact-centers-can-prevent-half-of-customers-calls/#37d4cac15fe6*

24 *http://www.creditunions.com/assets/1/7/2010_3Q_Tech.pdf*

25 *Toluna and J&K Solutions, Psychology of Financial Planning Survey, December 2012, as referenced in "Lesson Learned: Parents' Good Examples Key to Financial Preparedness," PR Newswire, January 29, 2013, www.multivu.com/mnr/54347-genworth-lesson-learned-parents-good-example-keyto-financial-preparedness (the Genworth Survey); Harris Interactive, The 2013 Consumer Financial Literacy Survey, www.nfcc.org/newsroom/ FinancialLiteracy/files2013/NFCC_NBPCA_2013%20FinancialLiteracy_ survey_datasheet_key%20 findings_032913.pdf (the Harris Survey).*

26 *Dustin*