Survey Report

The Next Growth Opportunity for Banks

How the Post-Crisis Financial Needs of Younger Consumers Will Transform Retail Banking Services

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Executive Summary

- The current banking environment of low interest rates combined with high charge-offs and delinquencies is making it difficult for banks to generate revenue in traditional ways.
- In October 2009, the Cisco Internet Business Solutions Group (IBSG) conducted a survey of 1,055 U.S. consumers to explore their evolving financial priorities, expectations for services from banks, and interaction preferences.[1]
- While consumers have faced significant financial strain due to a deteriorating job outlook and dwindling asset values, they have also embraced new technologies, including mobility and video, and adopted online behaviors, such as social networking, at an astonishing rate. These trends are particularly true for younger consumers.
- The survey clearly shows that the rise of younger generations will have a profound impact on retail banking, providing the next opportunity for revenue growth:
  - **Younger customers need help.** Generation Y (also known as "Millennials," and defined for the purposes of this survey as consumers born between 1980 and 1992) and Generation X (consumers born approximately between 1960 and 1979) are under financial pressure. Both groups need and want advice about how to manage their day-to-day finances, such as getting out of debt and saving for the future. This focus on personal financial management (PFM) is central to emerging revenue growth opportunities for banks.
  - **Younger customers trust banks to help them.** Despite challenges caused by the economic crisis, Gen Y and Gen X customers still trust their banks and want them to be their primary providers of advice.
  - **To be successful with younger customers, a new approach to retail banking is required.** Younger customers want banks to address their needs using the tools they and their peers have adopted, including mobile devices, video, and social networking—and they are willing to switch to banks that embrace these technologies.
- This is good news for banks that have struggled to scale cost effectively the delivery of advice to market segments beyond high-net-worth (HNW) individuals.
- Cisco IBSG tested three related concepts to better understand their appeal with different consumer segments and to help banks focus on the right approach:
  1. Automated advice, such as PFM capabilities, to help customers gain control of their finances
  2. High-quality video interactions to provide on-demand advice in branches and at home

3. Community-of-interest and social networking venues to offer virtualized, on-demand advice

- As a result, Cisco IBSG has identified an integrated value proposition that incorporates the concepts of self-service as well as virtual and community-based advice to address the needs of Gen Y (and, to a large extent, Gen X) consumers.
- The potential of this approach is significant. In fact, Cisco IBSG estimates retail banks can increase revenues by 5 to 10 percent. This figure is mainly driven by an increase in the cross-sell ratio. It also takes into account greater deposits resulting from highly targeted offers that are derived from better customer intimacy and the status of being a "bank of choice." Finally, the figure considers an increase in customer acquisition rates.
- Recent public results from the retail banking industry have shown that users of PFM tools are more profitable, have higher balances, consume more products and services, and are less likely to leave for another bank.[2] For example, PFM users at SAFE Credit Union were found to be three times more profitable, had balances of $14,500 versus $8,300, and averaged 5.7 accounts as compared to 3.6 for all households.[3] It is interesting to note that these figures were also much higher between PFM users and online banking users.
- In addition, Cisco IBSG further validated its estimate of revenue gains using customers that pay their bills online as a proxy. Public statistics from SunTrust indicate that the attrition rate for online bill payers is less than half that of average customers. In addition, these customers own 1.5 times more products and carry 1.6 times higher balances.[4]

A Difficult Climate for Growth

As the world emerges from the global financial crisis, banks find themselves in a challenging environment. Low interest rates are making it difficult to generate revenue in traditional ways, while raising capital and reducing risk have become the new priorities. Moreover, households in the United States witnessed an aggregate decline in wealth of nearly 18 percent in just a 12-month period—a sum of money roughly equivalent to the combined gross domestic product (GDP) of Germany, Japan, and the United Kingdom.[5] Additionally, many pitfalls, including persistently high unemployment and stubbornly depressed real estate values, still threaten to derail a full and robust recovery. Given this situation, it is critical that banks find and take advantage of new ways to generate revenue.

Cisco IBSG believes Gen Y and Gen X consumers are becoming increasingly strategic customer segments for banks. While the net worth of Gen Y and Gen X understandably trails that of people born before 1960 (baby-boomer and silver generations), their disposable income is fast approaching that of their elders.[6] Within the decade, Gen Y alone will supplant baby boomers and silvers as the largest customer segment by population (see Figure 1).

Figure 1. U.S. Population Distribution by Generation

	2010	2015	2020	Percent Change (2010–2020)
Gen Y	21%	30%	37%	+16%
Gen X	34%	33%	32%	-2%
Boomers / Silvers	45%	37%	29%	-16%
Other	0%	0%	2%	+2%

Source: "The Future of U.S. Consumer Spending: It's a Generational Thing," SeekingAlpha.com, October 2009.

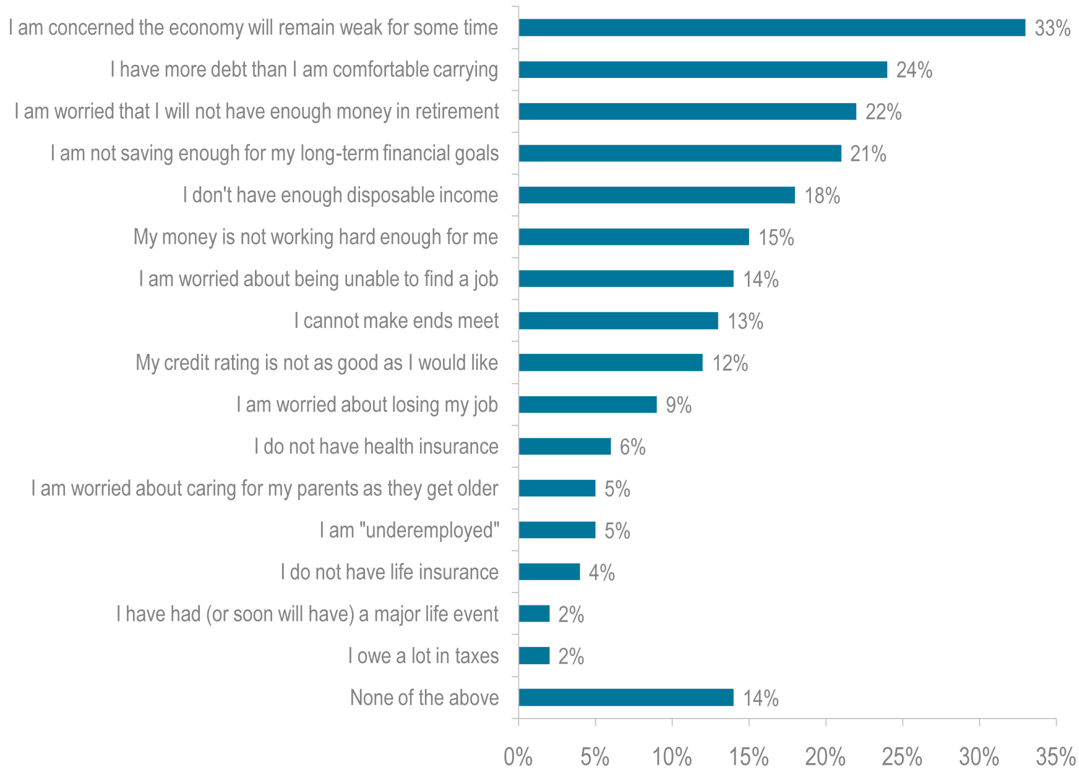
Although banks have invested heavily in meeting the financial needs of baby boomers, this segment has seen its financial prospects dim with the recent collapse of asset values. Many baby boomers are pushing out plans to retire, revisiting their portfolios, and spending less. As a result, brands in other industries that have relied disproportionately on this segment of the consumer market have taken a beating.[7]

Many such companies are now seeking new avenues for growth through products and services that target younger generations of consumers. Although increasing restraint and financial anxiety on the part of baby boomers do not necessarily denote trouble for banks, interest and fee income associated with older consumers is at greater risk than in the past due to a decreased appetite for new loans and the coming transfer of wealth to younger generations.

Consumers Need and Want Financial Advice

Cisco IBSG's survey findings point to an unmistakable movement in consumer financial priorities toward stability and deleveraging. Many consumers have been shaken by the economic events of the past two years and are clearly worried about their financial security (see Figure 2).

Figure 2. Top Financial Concerns of U.S. Consumers

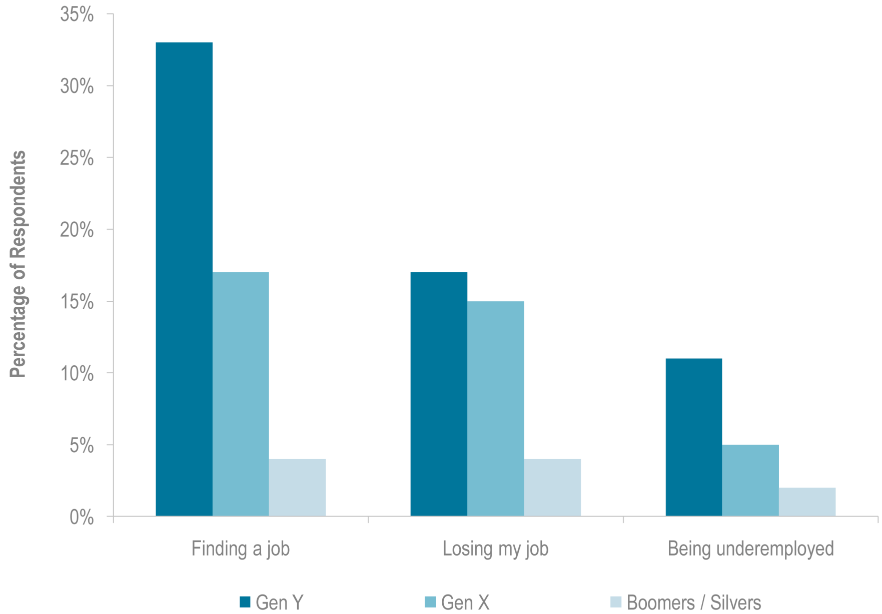


Source: Cisco IBSG, October 2009

Although all age groups want to get their financial houses in order, the economic crisis has spawned a sizable consumer segment that values access to financial expertise focused on controlling spending and revamping investment strategies for sustainable growth. These consumers also tend to be younger and are more active users of technology. Understanding the needs of these consumers is crucial as banks navigate today's landscape for financial services.

Among consumers interviewed, Gen Y and Gen X respondents registered the highest levels of concern with respect to employment status. Both groups are more worried about the security of their existing position or their ability to find a job (see Figure 3) than are baby boomers and silvers.

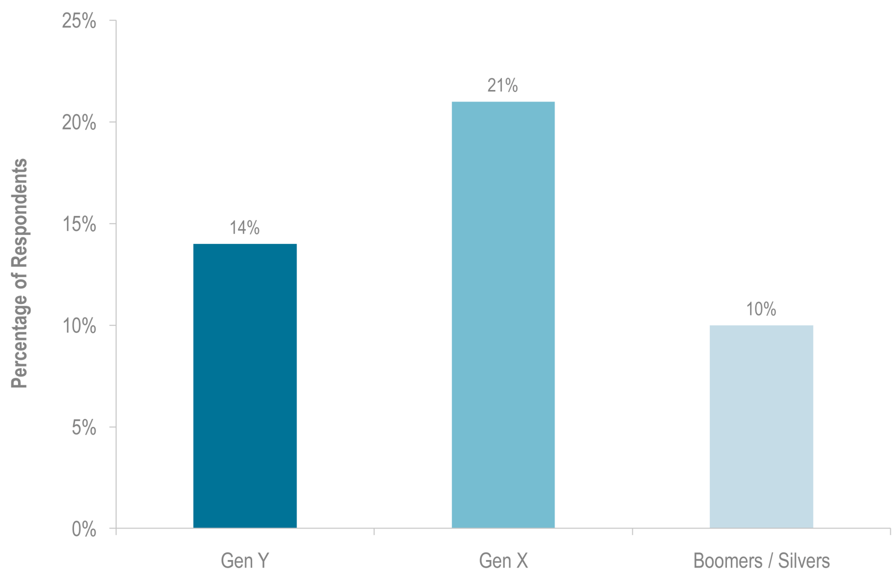
Figure 3. Employment Concerns of U.S. Consumers



Source: Cisco IBSG, October 2009

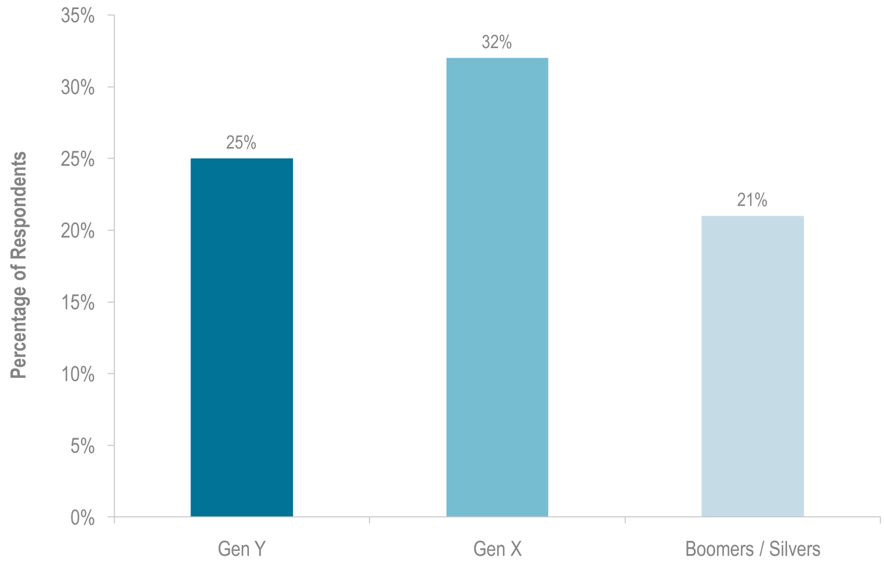
Gen X consumers are particularly feeling the pinch. In fact, many find they cannot make ends meet (see Figure 4) or that they are overextended financially (see Figure 5). This is likely because of their current career phase and responsibilities of providing for children (and, in some cases, for parents).

Figure 4. Cannot Make "Ends Meet"



Source: Cisco IBSG, October 2009

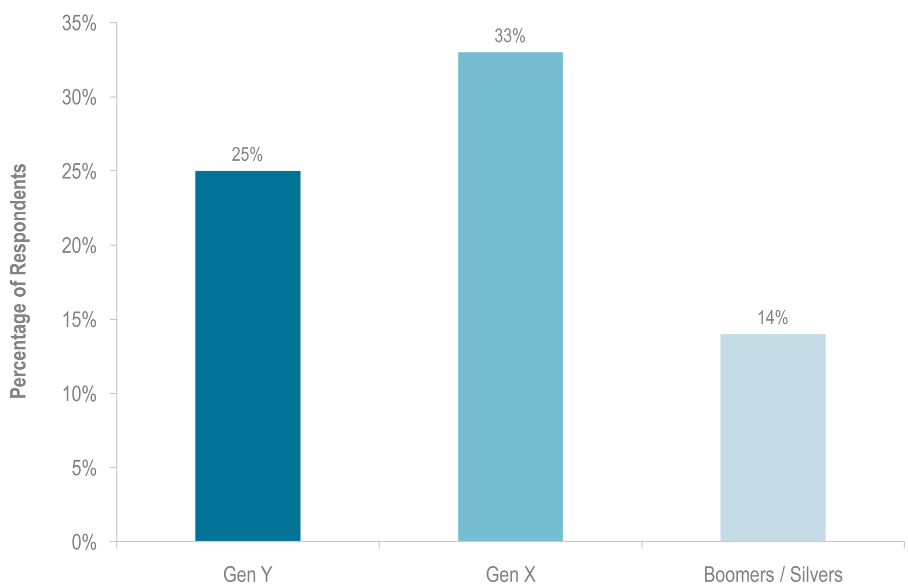
Figure 5. Carrying Too Much Debt



Source: Cisco IBSG, October 2009

Gen X and, to a lesser degree, Gen Y are also more concerned than other consumer demographic groups regarding adequate saving levels to meet long-term goals (see Figure 6).

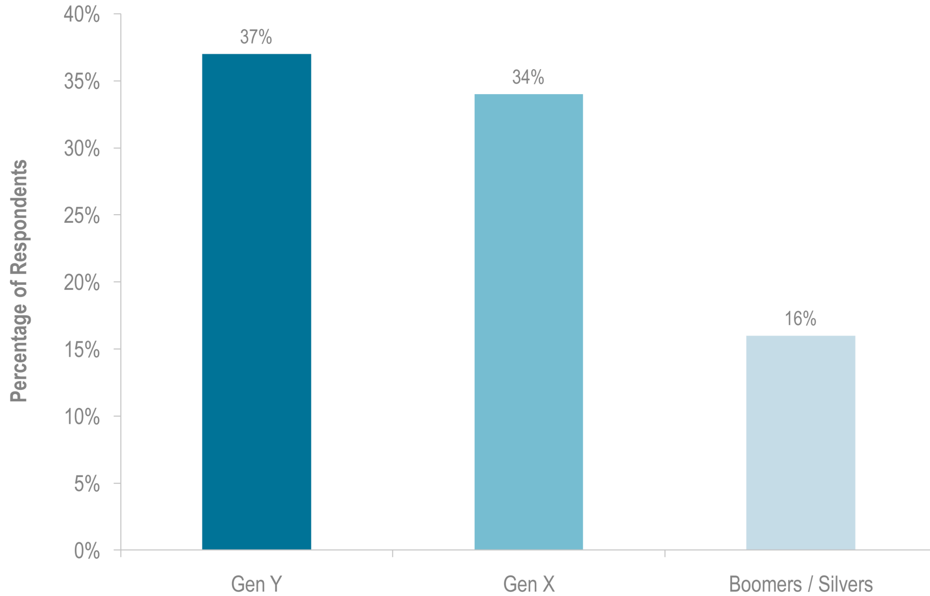
Figure 6. Not Saving Enough for Long-Term Goals



Source: Cisco IBSG, October 2009

Consumers were clear that, in an era marked by dramatic declines in wealth and by increasing economic insecurity, financial advice and savings savvy are highly valued. Consumers in the early stages of their careers and financial lives need the most help in managing their finances, and are seeking opportunities to educate themselves about money matters. The Cisco IBSG study revealed that more than one-third of both Gen Y and Gen X consumers feel they need assistance managing their financial affairs, while less than one-fifth of boomers and silvers feel the same way (see Figure 7).

Figure 7. Percentage of Consumers Who Feel They Need "Help Managing Finances"



Source: Cisco IBSG, October 2009

This suggests banks' collective emphasis on older consumers for financial advice offerings may obscure a vital opportunity in terms of long-term differentiation and revenue generation. Further, the majority of bank-delivered financial advisory services have focused chiefly on investment advice that, while still critical, only partially aligns with crystallizing PFM priorities of expense management, debt reduction, and financial education.

It comes as no surprise that younger people need advice since they are embarking on new ventures, finding employment, establishing credit, making big-ticket purchases, and funding their education. To date, however, even acknowledging the high-margin nature and cross-sell potential of advisory services, extending this business to younger customer segments has been historically unattractive for banks. In-person delivery through the branch channel, the primary vehicle through which banks have dispensed financial advice, is a costly proposition for banks. A mounting need for financial advice on the part of younger consumers, however, as well as a transformation of the underlying economic logic of delivery channels afforded by technology (through remote advice, virtual consultations, self-service monitoring of financial status, and peer-supported advisory models), warrants a re-examination of this opportunity.

Younger and older consumers both cite professional financial advisors as their preferred source of assistance for financial decisions. Gen Y and Gen X also show budding interest in using social networking, online communities of interest, and sharing of experiences and information with other customers (see Figure 8).

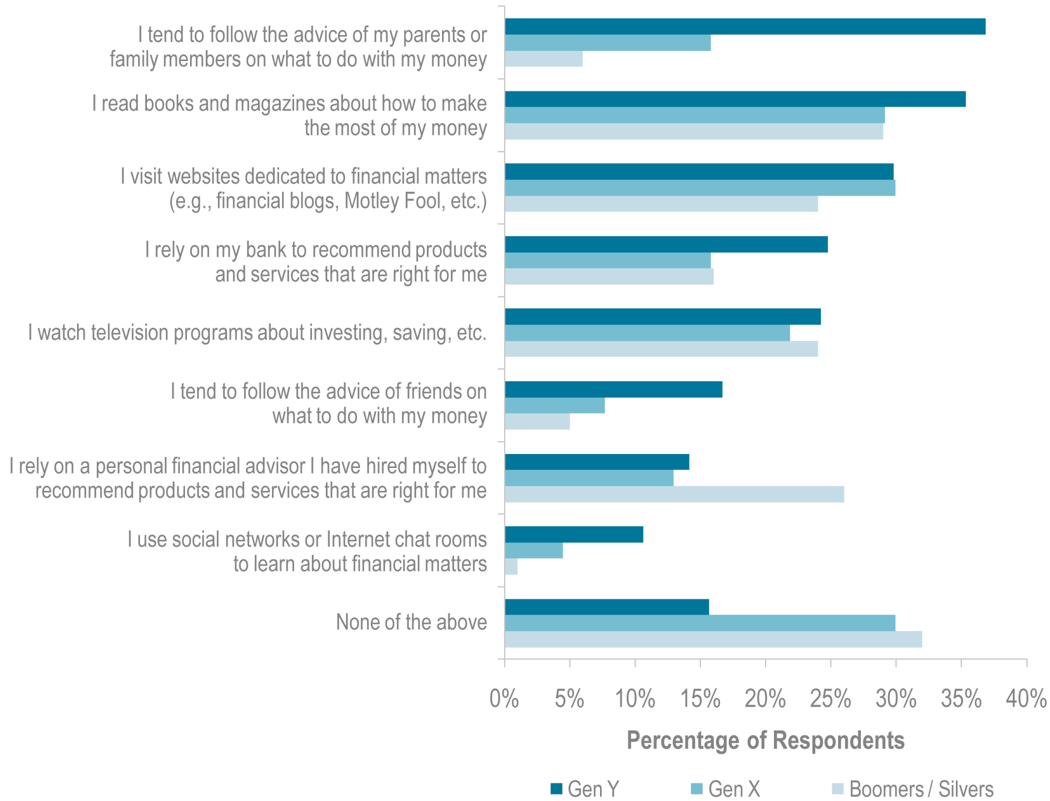
Figure 8. Preferred Methods for Receiving Financial Advice

Source: Cisco IBSG, October 2009

Younger Consumers Look to Their Banks First for Advice

Consumer generations diverge in where they turn for financial information (see Figure 9). Gen Y is more likely to depend upon a bank (rather than an independent advisor, broker, or other source). This underscores the potential for banks to deepen relationships with—and provide targeted advice to—Gen Y consumers. Gen Y makes significantly more frequent use of both family and friend networks for financial advice and consults social networking and other online sites more often than older consumers, underlining the potential of peer-supported online communities.

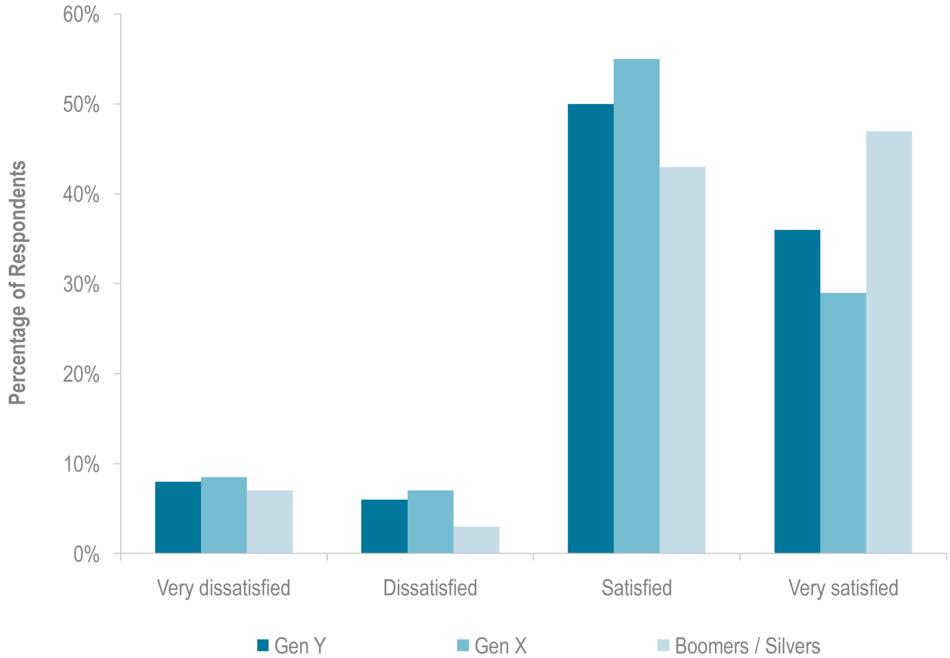
Figure 9. Where Consumers Turn for Financial Information



Source: Cisco IBSG, October 2009

Despite a common perception that banks are held in lower regard today than ever before, Cisco IBSG's data actually suggest consumers are decidedly satisfied with their primary banking relationship. Eighty-eight percent of all consumers surveyed were either satisfied or very satisfied with their current bank (see Figure 10). Banks, therefore, appear well positioned, despite recent travails, to establish themselves as providers of choice for new financial advisory services.

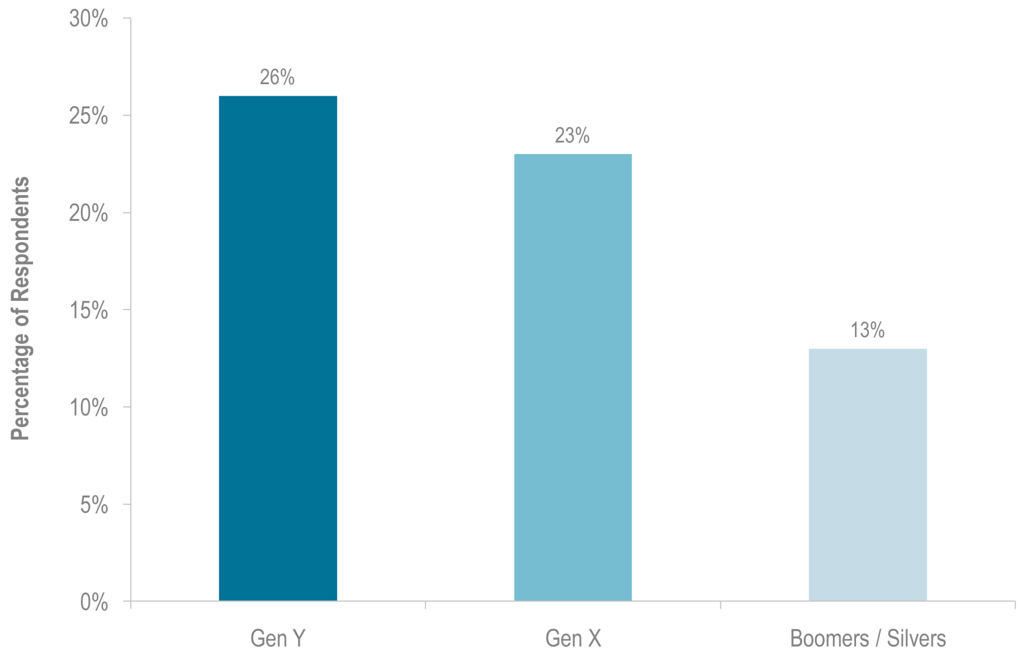
Figure 10. Satisfaction with Current Bank



Source: Cisco IBSG, October 2009

Although they are mostly content with the services they receive from banks now, Gen Y and Gen X are also the most open to switching banks: 26 percent of Gen Y and 23 percent of Gen X respondents indicated they would consider moving their primary banking relationship elsewhere. This compares with just 13 percent of baby boomers and silvers (see Figure 11). While banks may be in a strong position to target younger consumers with advice-oriented products and services, these findings suggest they may also be vulnerable to first-mover rivals.

Figure 11. Willingness to Switch Banks (7 or Higher on a 10-Point Scale, Where 10 Is "Extremely Willing")



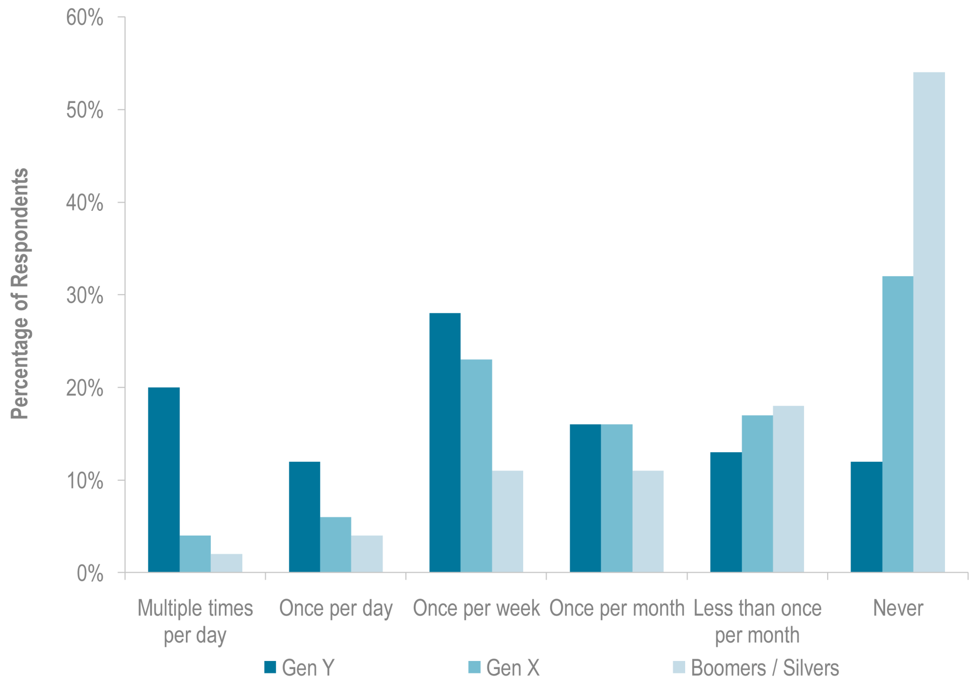
Source: Cisco IBSG, October 2009

Younger Consumers Adopt New Methods of Information Delivery

Younger consumers tend to be more connected and employ technology more frequently. Cisco IBSG found that mobile phone use among younger consumers is truly ubiquitous, with penetration rates of 97 percent for Gen Y and 91 percent for Gen X. And although mobile banking penetration remains relatively low, Gen Y and Gen X make significantly more use of these capabilities.

Younger consumers also tend to take greater advantage of video. Cisco IBSG found that 53 percent of Gen Y and 40 percent of Gen X customers have used online video chat capabilities such as Skype. Moreover, for these consumers, online video extends not just to day-to-day communications with friends and family, but also to information and entertainment purposes—20 percent of Gen Y consumers visit YouTube multiple times per day (see Figure 12).

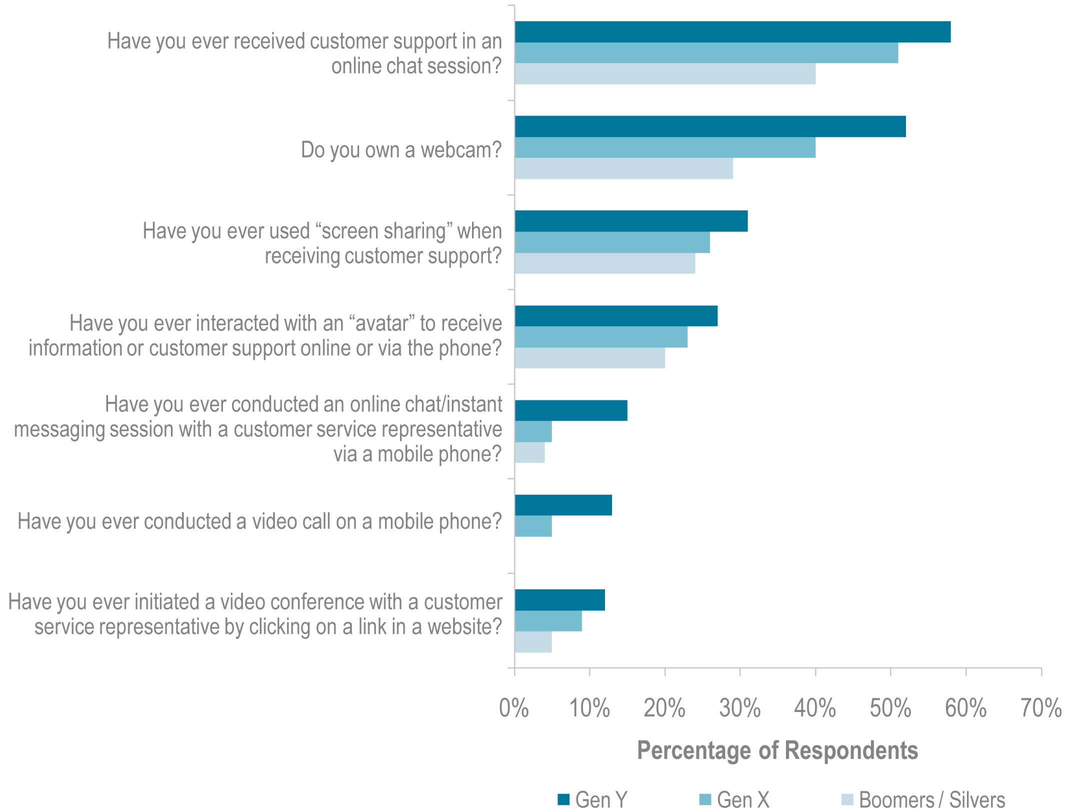
Figure 12. Visits to YouTube Multiple Times Per Day



Source: Cisco IBSG, October 2009

In addition, Gen Y and Gen X have exhibited substantially higher adoption of new online tools and channels relevant to receiving financial advice (see Figure 13).

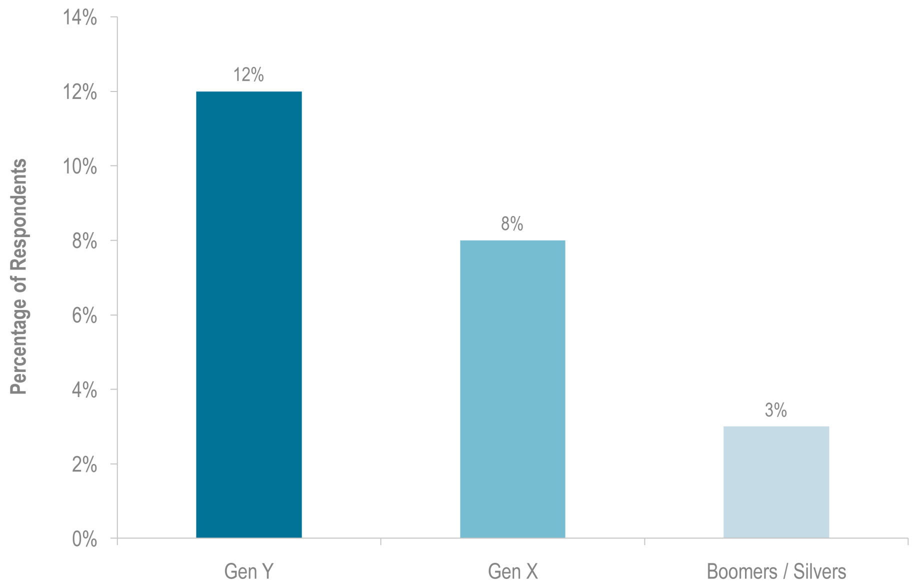
Figure 13. Use of Representative Online Tools and Channels



Source: Cisco IBSG, October 2009

Gen Y consumers are four times as likely as boomers and silvers to have posted a question about financial matters to a blog or online forum (see Figure 14). Although the penetration of online financial communities and social networking for financial matters remains modest, the comparison across generations is stark.

Figure 14. Percentage of Respondents Who Posted Questions About Finance and Investing to Blogs and Online Forums



Source: Cisco IBSG, October 2009

Younger consumers have adopted these, and other technologies, to a far greater degree than their elders. This demonstrates their readiness for innovation in how banking services—including financial advice—are delivered. The discrepancies among generations in the adoption of innovative technologies, when coupled with the precedence of distinct financial priorities among younger generations, underline an important convergence of opportunities for boosting cross-sell rates, growing wallet share, and lowering customer acquisition and service costs.

Window of Opportunity Is Open To Deliver Next-Generation Advisory Services

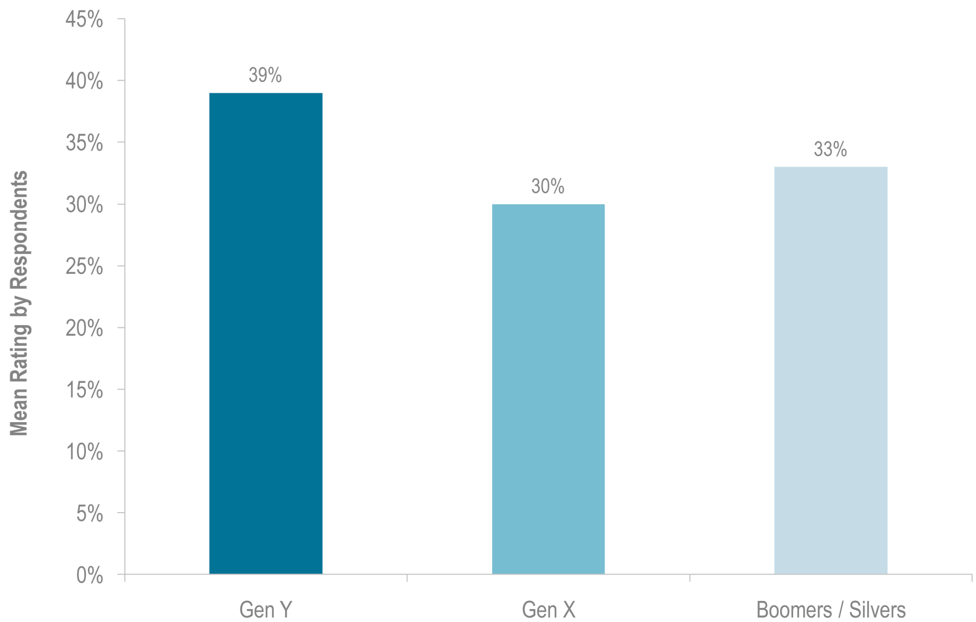
These findings indicate banks have a tremendous opportunity to provide Gen Y and Gen X consumers with personalized advice and value propositions. In fact, retail banks that execute correctly will become financial services providers of choice for these customer categories.

To support this conclusion, Cisco IBSG explored several value propositions related to delivering advice and conducted a concept test with survey respondents that focused on the following capabilities:

- A mobile-enabled online PFM offering that emphasizes a holistic view of customers' financial situations and behaviors
- A video-centric advisory model to allow consumers to interact with remote financial advisors via video kiosks in the branch as well as from the home
- A bank-moderated community of interest and social networking venue to provide virtualized advice on demand

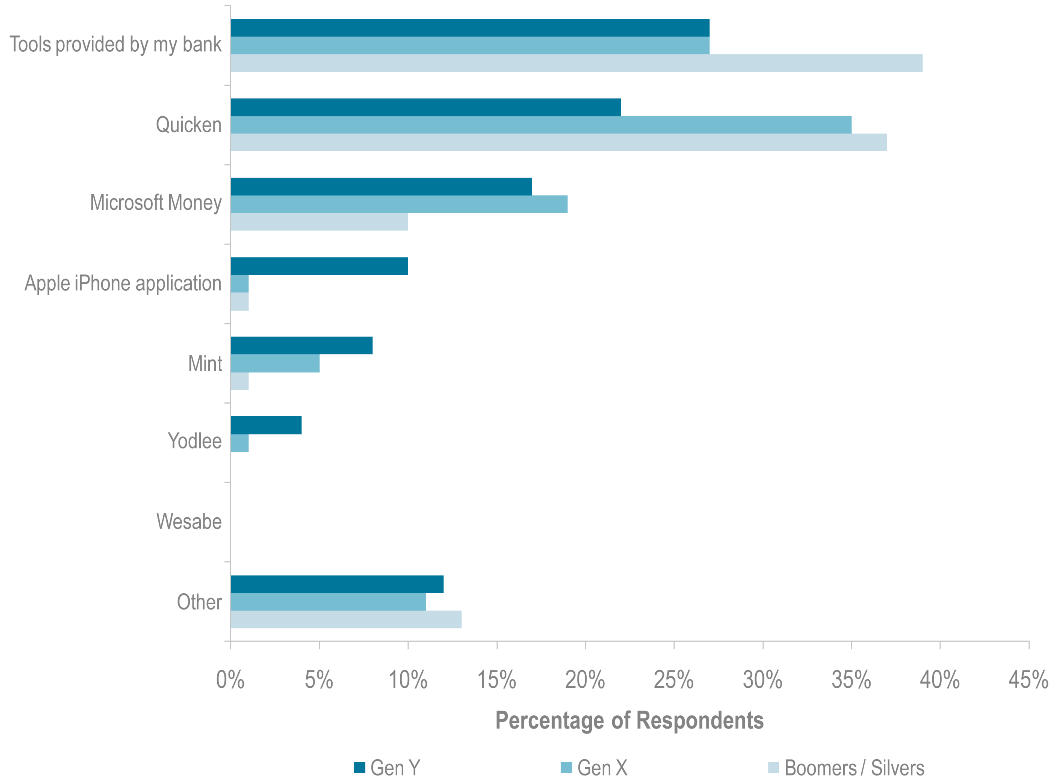
The survey findings show consumers of all ages are already making frequent use of PFM applications. In fact, roughly one in three respondents use some type of PFM tool (see Figure 15), with Quicken software and, interestingly, tools furnished by banks being the dominant resources (see Figure 16). Although only a small percentage of Gen Y respondents indicated they use Quicken for managing their finances, they were nearly eight times as likely as boomers and silvers to use Mint, an online PFM site recently acquired by Intuit, Inc., publisher of Quicken. The average age of Mint users reportedly is 30, while the average age for Quicken customers is 47.[8]

Figure 15. All Age Groups Already Using PFM Applications



Source: Cisco IBSG, October 2009

Figure 16. Usage of Specific PFM Tools



Source: Cisco IBSG, October 2009

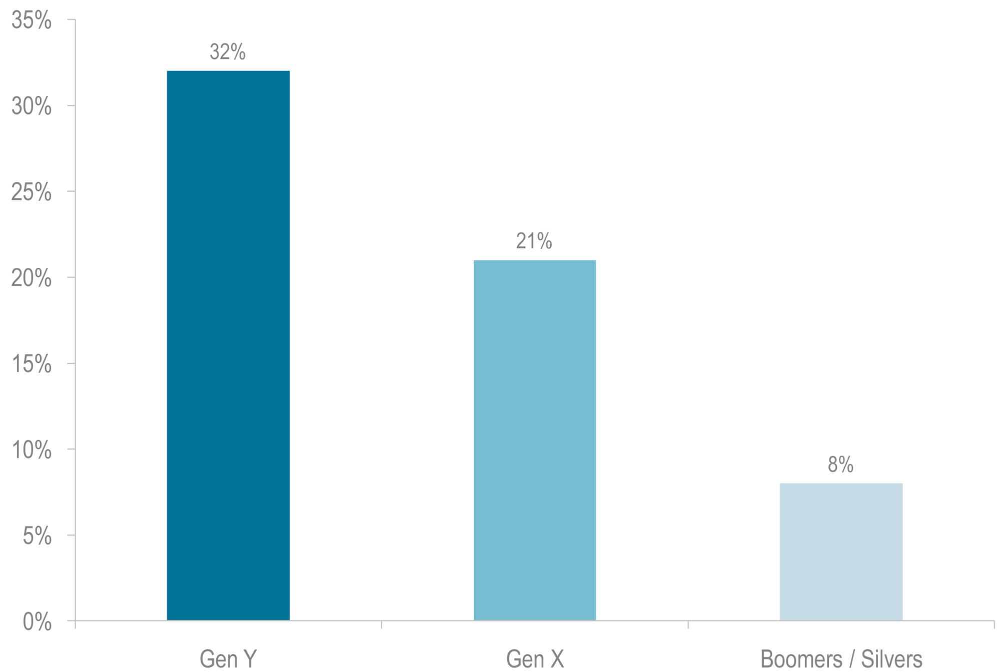
In terms of the capabilities offered by PFM tools, budgeting, categorization of expenses, and overspending alerts were cited as the most valuable (see Figure 17). This is in line with the wider finding that managing expenses, reducing debt, and maximizing long-term savings are top-of-mind and areas where help is needed most. Strikingly, across all three categories—budgeting, expense categorization, and overspending alerts—a higher priority was placed on these capabilities as the age of respondents decreased. Gen Y and Gen X value these budgeting and money management capabilities far more than boomers and silvers do.

Figure 17. Most Valuable Functionality in PFM Tools

Source: Cisco IBSG, October 2009

Moreover, nearly one-quarter of Gen Y respondents expressed interest in visualization functionality that allows users to forecast future holdings and chart progress against goals. Again, this is far higher than the level of interest shown by older consumers. Also, Gen Y is much more prepared to tap PFM capabilities while on the move. In fact, more than 10 percent of these consumers are already using a PFM application on their Apple iPhone (does not include other types of smartphones), and 32 percent are interested in having PFM functionality available on their mobile devices. This is quadruple the rate of interest among baby boomers and silvers (see Figure 18).

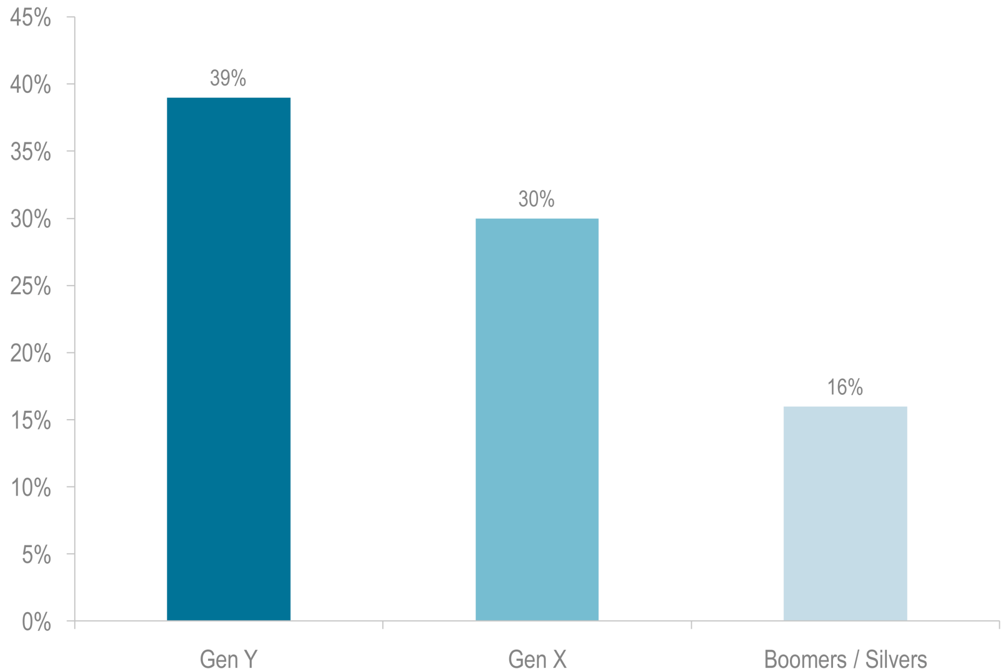
Figure 18. Appeal of PFM Functionality on Mobile Phones (7 or Higher on a 10-Point Scale, Where 10 Is "Extremely Appealing")



Source: Cisco IBSG, October 2009

The concept test undertaken by Cisco IBSG yielded some interesting findings, particularly regarding consumer receptivity to new channels of interaction with banks. The study suggests that both Gen Y and, to some extent, Gen X consider video-based communication with their banks a positive differentiator. Nearly 40 percent of Gen Y and fully 30 percent of Gen X respondents indicated they consider the idea of interacting with remote advisors via video appealing or very appealing (see Figure 19).

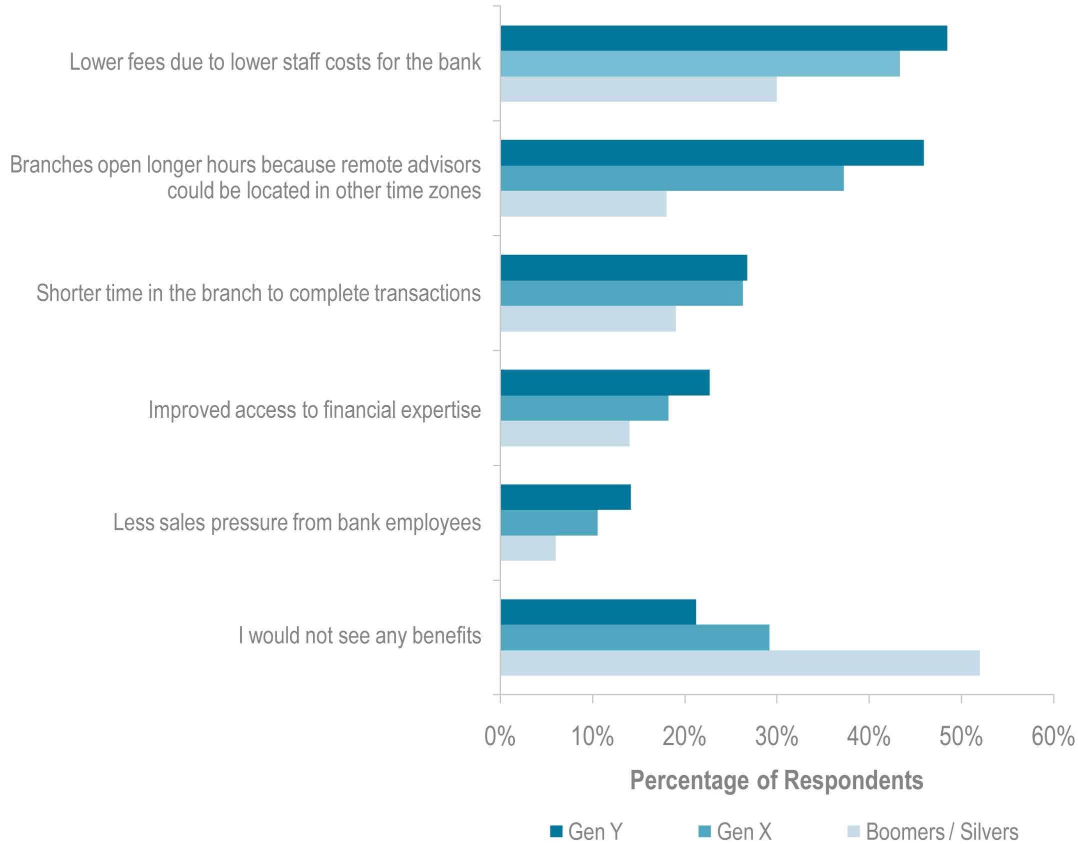
Figure 19. Appeal of Interacting with Remote Advisors Using Video in the Branch



Source: Cisco IBSG, October 2009

This was found to be even more compelling if the use of video to interact with remote experts translated into greater flexibility and convenience through longer hours of operation and lower fees (see Figure 20).

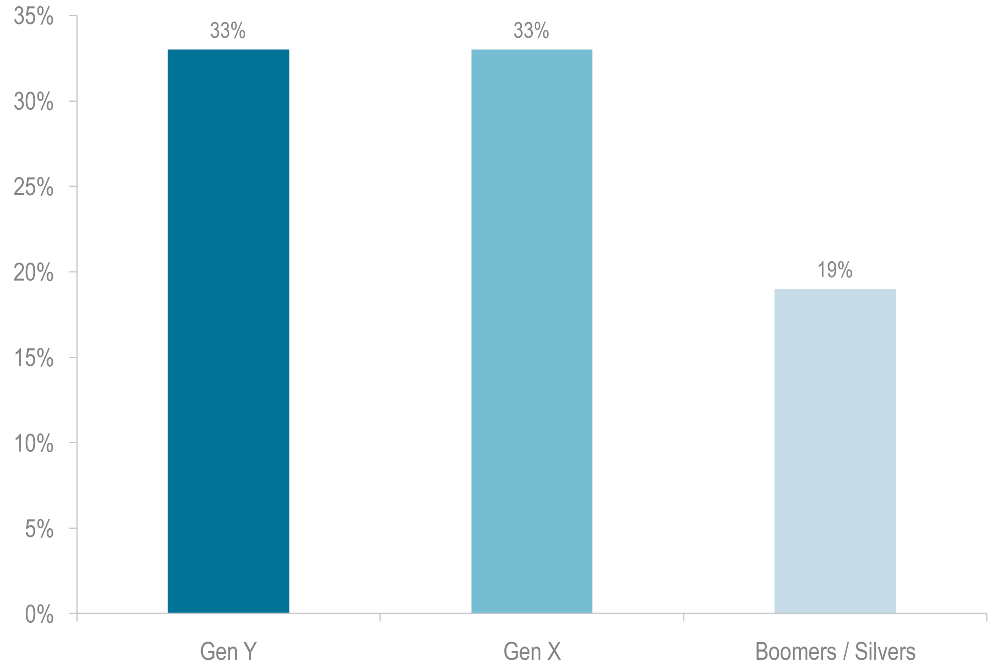
Figure 20. Benefits of In-Branch Video Access to Remote Advisors



Source: Cisco IBSG, October 2009

One-third of Gen Y and Gen X consumers are also open to the idea of interacting with their banks exclusively on a virtual basis using video (see Figure 21). This is substantially higher than for older generations, highlighting the potential of virtual-led operating models in serving these demographic groups.

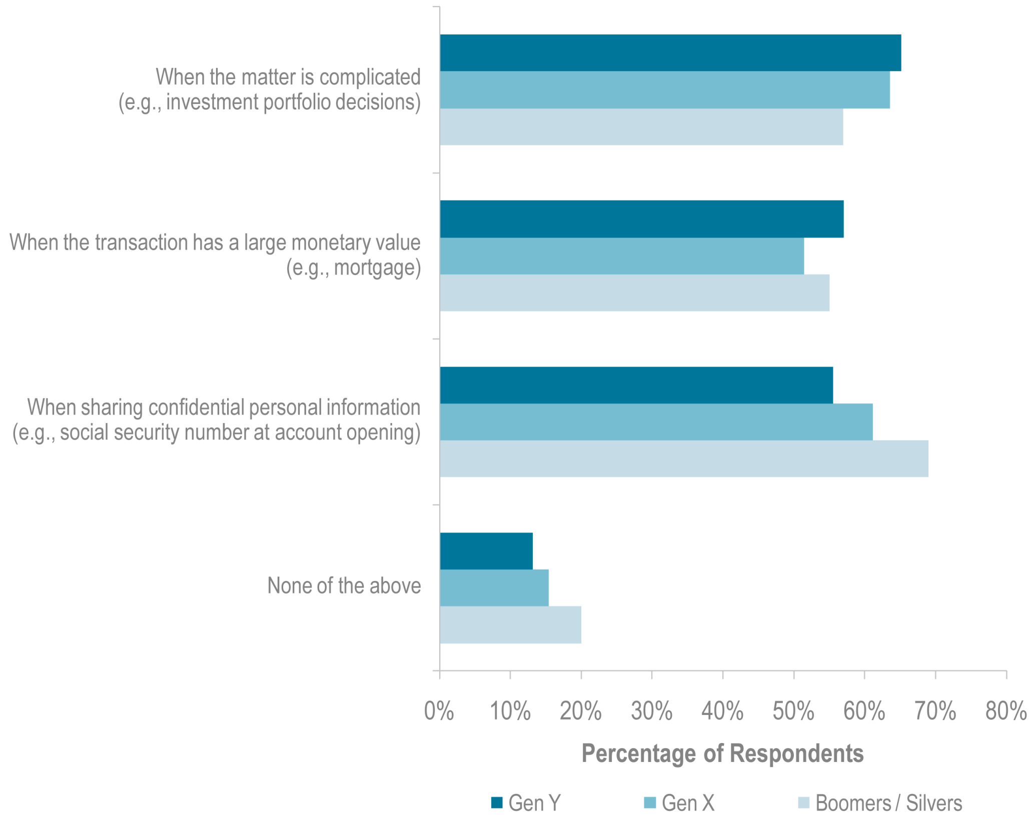
Figure 21. Willingness To Interact Exclusively with Bank on a Virtual Basis



Source: Cisco IBSG, October 2009

This finding does not predict the demise of the branch channel, but rather the advent of a much more prominent virtual one. In fact, when asked about where these customers would like to finalize high-dollar or high-complexity transactions, most Gen Y and Gen X respondents listed the branch as their preferred channel due to the perception of higher security and better accuracy of information (see Figure 22).

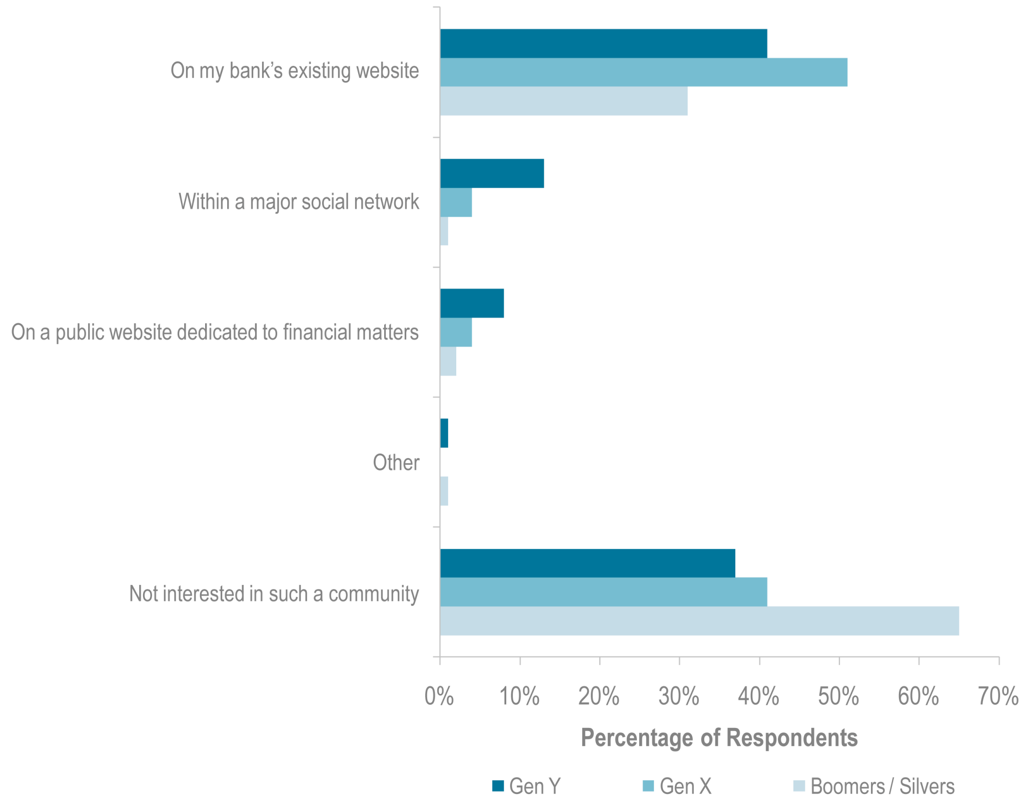
Figure 22. Situations Where Customer Would Prefer To Finalize Transactions in the Branch



Source: Cisco IBSG, October 2009

Gen Y consumers prefer to use banks' secure websites instead of major social networking sites and public websites dedicated to financial matters (see Figure 23). More important, Gen Y and Gen X were most interested in having their banks act as the orchestrators for a financial services community.

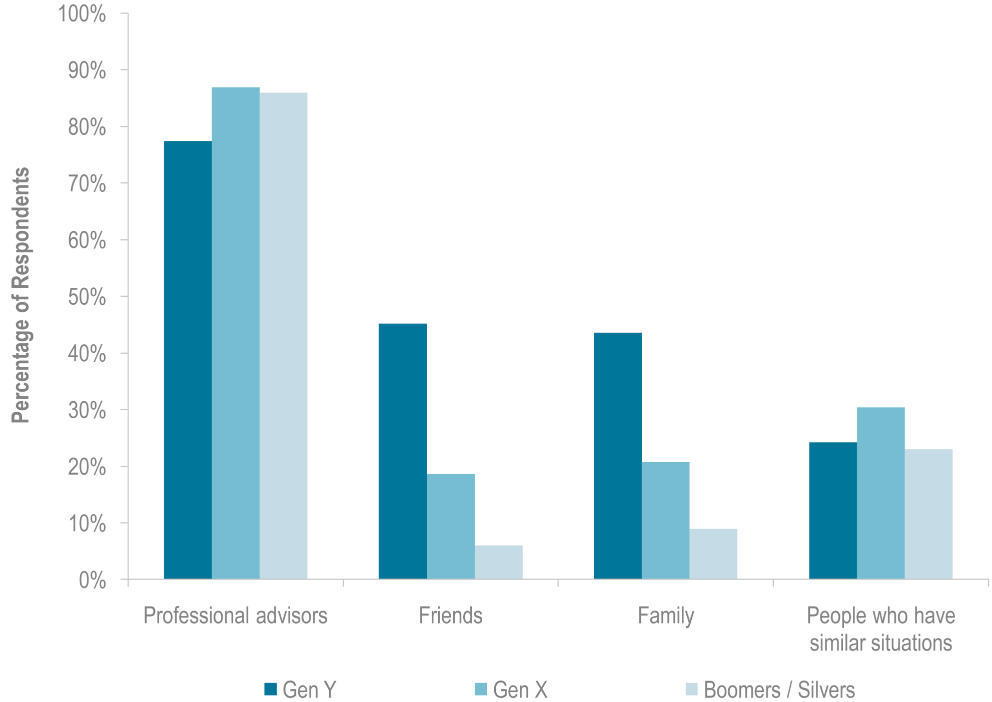
Figure 23. Preferred Venue for Financial Community



Source: Cisco IBSG, October 2009

The ability to interact with professional advisors in an online financial community of interest is appealing to consumers, with a minimum of 75 percent of respondents across all demographic groups registering interest (see Figure 24). Gen Y also stood out as being far more interested than other age groups in interacting with friends and family networks within the community. This suggests consumers are intrigued with the possibility of an online community where they can learn about and obtain guidance on financial matters and, in the case of younger consumers, interact with others they know.

Figure 24. Preferred Sources of Financial Information within an Online Financial Community



Source: Cisco IBSG, October 2009

Additionally, the idea of including advisors in financial communities of interest sponsored by banks was appealing to Gen Y and Gen X respondents as long as bank employees are clearly identified, and interactions are unobtrusive and initiated by customers.

- More than 40 percent of Gen Y and one-third of Gen X respondents saw the value of accessing bank representatives and advisors using instant messaging (live support).
- More than 30 percent of Gen Y and Gen X consumers were interested in exchanging email messages with advisors in community sites.
- More than one-quarter of both groups were interested in “click-to-call” functionality.
- Gen Y showed strong interest in mobile text messaging (22 percent) and video-based support (16 percent).

Industry Leaders Take First Steps

Given these findings, leading financial institutions are working to position themselves as industry innovators and as retail banking providers of choice for younger consumers.

PFM

Banks increasingly recognize the potential of a PFM service to improve online “stickiness” and create greater cross-selling of related products. Because of this, many institutions are actively building PFM capabilities. Citi, for example, is reportedly developing a PFM offering, while JPMorgan Chase and ING DIRECT have both introduced PFM-oriented capabilities.[9]

Spanish bank BBVA’s Tú Cuentas (You Count) program, built on moneyStrands’ PFM platform, has attracted more than 400,000 users in its first 12 months of operation.[10] BBVA’s offering includes a graphical representation of financial health and provides visualization of changes across accounts over time. The site allows users to tag specific types of financial transactions and to compare themselves with others from the Tú Cuentas community. Tú Cuentas also enables users to set alerts to highlight when they reach or fall short of budget goals and spending limits. In addition, the service presents customers with personalized recommendations for products and services that will save them money.

PFM vendors, such as Jwalla and Wesabe, are aggressively selling to banks to position themselves as enablers of bank-owned PFM solutions.[11] One aim of bundling third-party PFM offerings with existing online banking websites is to accelerate integration of these tools by banks. With its recent launch of Springboard, Wesabe claims to enable deployment within bank websites in a matter of hours. Another objective is to maximize consumer adoption. As noted earlier, consumers trust banks more than they do stand-alone players.[12]

Still other companies, such as Geezeo, are looking to move up the food chain from pure PFM solutions to full-service online banking applications, and are focused on extending these capabilities across channels (including mobile devices) for banks. Many large banks, such as PNC Financial, with its release of Virtual Wallet, are opting to develop these capabilities in-house.[13]

Video

As with PFM, there is growing awareness about the role video can play in differentiating and scaling bank services to consumers. Widely lauded for its innovations in branch design and customer support, Umpqua Bank, with approximately 150 branches in the Pacific Northwest, has undertaken a video-based remote expert pilot program in one of its downtown Portland, Oregon stores. The Umpqua project links customers in stores with remote product experts at the company's contact center. A similar initiative at TD Canada Trust uses connections from video phones to link customers with specialist advisors.[14]

BBVA Compass, the 15th largest bank in the United States by deposits, with nearly 750 branches in seven states, is rolling out a collaborative tool called Virtual Banker. This tool provides two-way audio and video conferencing between consumers and Compass advisors. Customers access the tool from cubicles in Compass branches that have been outfitted with computers, 25-inch video screens, document scanners, printers, and debit and credit card readers. Virtual Banker allows customers and advisors to see one another via a split video screen, review documents, and mark up a shared virtual whiteboard. Virtual Banker has been piloted at six branches in the Houston, Texas area, and BBVA Compass plans to deploy the solution to 60 more locations.[15]

Over the past year, one of America's top-10 banks has used video to target consumers in its branches. The bank recognizes that a significant percentage of consumers who do not receive needed product expertise or financial advice when they visit a branch will take their business elsewhere. In fact, Forrester Research estimates 70 percent of consumers will either not follow up on their interest or will seek assistance from another bank.[16]

To reduce the number of customers who exit branches without receiving the financial advice they need, the bank has outfitted more than a dozen branches with dedicated video terminals. Customers now can access remote experts who have product knowledge that is not readily available in every branch, such as retirement planning and treasury management for medium-sized businesses.

In Europe, video-based interaction between advisors and consumers is gaining particular momentum. Bankinter, one of the largest financial institutions in Spain, has actively transformed its customer support model through the application of video.[17] When customers encounter common “sticking points” in transactions, such as opening an account or completing a mortgage application online, they can initiate video-based chat sessions with support representatives by activating a “click-to-call” link on the bank’s website. Bankinter’s contact center reportedly handles more than 1,000 video-based support sessions per day and claims a 35 percent improvement in close rates for customers using video as compared to other channels. The bank has also achieved significant gains in overall customer satisfaction.

France’s monabanq, recently acquired by Credit Mutuel, is another innovative example that demonstrates how video is being used to transform the sales and service experience.[18] With more than 200,000 clients and some 200 financial advisors, monabanq’s model is exclusively virtual—with video interactions and transactions occurring over the web and supplemented by digital document storage, e-commerce, collaborative tools, text messaging, and electronic signature capabilities.

Dutch bank Rabobank has offered access to its services via interactive TV for some time. The bank is now piloting video calls with advisors.[19]

SNS Bank, the fifth-largest bank in the Netherlands, has introduced an online mortgage advice service that integrates co-browsing, file sharing, and video chat with advisors. This service has reportedly tripled mortgage close rates as compared to the standard web channel.[20]

Communities of Interest

Several banks are now moving into the online community space, with particular emphasis on serving the financial needs of students, a large component of the Gen Y demographic. Barclays’ 100 Voices is a leading example of how an online community and “soft-selling” approach are being tested with Gen Y customers.[21]

The “voices” on the site are actual students and Barclays account holders who have agreed to share their experiences in the community. The students serve as panelists, keeping “money diaries” and documenting financial experiences during their first term in college. The site includes polling, saving and investing tips, and threaded discussions on topics that deal with money matters. Interestingly, Barclays tracks and publishes the sentiments of the 100 participants, including their satisfaction in dealing with Barclays.

Another example is TD Money Lounge, a Facebook group where university students can discuss financial issues and interact with peers to learn how others are coping with the stresses of student life.[22] TD Money Lounge serves as a venue for the bank to learn about the financial needs of its customers. The community also allows customers to provide feedback, yielding important insights for the bank. TD Money Lounge is tightly linked to the bank’s website and connects members to content and product information at tdcanadatrust.com that deals with student finances, including budgeting, loans, saving tips, job searches, and more.

Retail Banks Can Increase Revenues by 5 to 10 Percent

An integrated value proposition that includes PFM services, video capabilities, and communities of interest has the potential to generate significant value for retail banks. Cisco IBSG estimates a top-tier U.S. bank can increase revenues by 5 to 10 percent. And while no bank currently offers an integrated set of automated, community-based, and video-enabled financial management and advisory services, many banks have invested in one or more of these capabilities.

Recent public results from the retail banking industry have shown that users of PFM tools are more profitable, have higher balances, consume more products and services, and are less likely to leave for another bank.[23] For example, PFM users at SAFE Credit Union were found to be three times more profitable, had balances of $14,500 versus $8,300, and averaged 5.7 accounts as compared to 3.6 for all households.[24] It is interesting to note that these figures were also much higher between PFM users and online banking users.

In addition, Cisco IBSG further validated its estimate of revenue gains using customers that pay their bills online as a proxy. Public statistics from SunTrust indicate that the attrition rate for online bill payers is less than half that of average customers. In addition, these customers own 1.5 times more products and carry 1.6 times higher balances.[25]

Given these metrics, a top-tier bank with $30 billion in revenues from its retail operations, and with 40 to 50 million customers (10 to 20 percent of whom are using next-generation advisory services), could capture between $1.5 and $3 billion in increased revenues.[26] This figure is mainly driven by an increase in the cross-sell ratio. It also takes into account greater deposits resulting from highly targeted offers that are derived from better customer intimacy and the status of being a “bank of choice.” Finally, the figure considers an increase in customer acquisition rates.

The increase in customer acquisition numbers assumes the sale of one additional product per customer within the PFM user segment (10 to 20 percent of customers), a 25 percent reduction in attrition, and a 10 to 25 percent increase in deposits for the same segment. It also includes a 10 to 25 percent increase in the customer acquisition rate, which is estimated at 5 percent.

This benefit clearly represents an opportunity for banks that address the needs and expectations of younger generations early on, and a threat for banks that don’t. This is because a significant share of the market is at stake, with as many as 25 percent of Gen Y consumers willing to switch banks if offered a better value proposition.

Next Steps

Based on these findings, Cisco IBSG recommends retail banks develop three sets of capabilities to meet the needs and expectations of Gen Y and Gen X consumers.

1) Build or Acquire PFM Capabilities To Help Customers Gain Control

Through PFM, banks can develop a holistic view of consumers’ financial situations and needs, and use this information to provide more relevant advice, strengthen their position as the bank of choice, and increase cross-sell and up-sell success ratios. A recent article profiling Mint cited substantially greater openness to offers and a conversion rate of 20 to 40 percent among users of that site’s “Ways to Save” service.[27] Based Cisco IBSG’s findings, the relevance of a similar capability for Gen Y consumers could be significantly enhanced if it enabled automated advice focused on debt reduction, expense management, and financial education.

Value can be further increased by adding an element of real-time interaction using mobile phones. For example, the ability to use a mobile phone to categorize and classify credit card, debit card, and checking transactions in real time, and to receive alerts when certain activities deviate from plan, can significantly improve the effectiveness of monitoring and managing customer spending.

2) Improve Customer Intimacy with High-Definition Video Capabilities in the Branch and at Home

Consumer research has shown that only immersive, life-like video such as Cisco TelePresence™ can achieve the trust required to discuss and sell financial services. Many bankers have become skeptical of remote expertise models because previous attempts using standard-definition, low-quality video failed. In addition, it has been difficult to justify investments in high-definition video in the branch, with the exception of HNW individuals who need holistic services from estate planners, lawyers, tax consultants, and fund managers that might not be available in all branches.

Given this situation, Cisco IBSG recommends starting with branches that have a large percentage of HNW individuals and / or small and medium-sized business (SMB) owners. Banks can also use the same technology investment to serve the needs of Gen Y and Gen X consumers who might have initiated an inquiry on the web or in a community of interest, and feel more comfortable finalizing the transaction in a branch. Virtual advisors can also bring expertise that is not available at the branch and provide services after hours.

Moreover, adoption of PFM tools and communities will be significantly accelerated if events such as opening an account or subsequent visits are complemented by video-based instruction from advisors and support staff located remotely who can assist with sign-up, provide guidance on personal finances, and answer questions. Recent experience with enrolling customers in an online bill-paying service showed that adoption and usage significantly increased when they were guided through the processes of signing up and adding payees during visits to a branch.[28]

Over time, new advances in technology will make these types of immersive video interactions possible from the home. Cisco TelePresence is one such example, which service providers such as Verizon and France Telecom are now piloting for home use.

3) Develop a Financial Services Community Focused on the Needs of PFM Users

The web is replete with examples of communities of interest that have been launched and then retired by banks. The most successful communities are those that allow users to derive significant value from other participants and professionals in the community.

Given the thirst of Gen Y consumers for financial advice and their preference to have banks build communities on their own websites, one potential approach is to develop a community as an extension of the bank's PFM capability, with content and functionality segmented by demographics and life events. This community should balance general information with personalized answers from bankers and financial advisors. It should also provide experiences shared by community members. Cisco IBSG's research suggests that Gen Y consumers would welcome this type of advice as long as it is perceived as being objective and not too focused on selling new products and services.

While each of the solutions can be pursued separately, PFM capability with the community of interest, combined with high-definition video advice, can yield significant synergies by building on better knowledge and intimacy with the customer, in a cost-effective manner.

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Endnotes

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More Information

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