White Paper

financial health

building accountholder success with pfm

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executive summary

The retail banking industry is at the cusp of a revolution. It's a revolution heavily influenced by consumers struggling to achieve financial stability and success, and by their access to a variety of third-party money management tools and apps. Adoption and promotion of personal financial management (PFM) will boost the quality of accountholders' experience and maximize their engagement with retail banks and credit unions.

Some of the key challenges faced by financial institutions in delivering customer and member delight (while managing existing product portfolios and legacy business applications among other things) include:

- Inability to provide sufficient support for a highly scalable workload.
- Lack of accountholder insights, agile systems, and processes for accountholder retention.
- Digital disruption by third-party payment providers, social media, and alternative currencies.
- Lack of a collaborative platform (involving the accountholder and the financial institution), increasing the complexity of decision-making.

To meet these challenges, retail banks and credit unions can adopt a comprehensive PFM solution, enabling realization of three key benefits – **improved accountholder engagement, cost reduction, and increased revenue**. It must provide personalized engagement and enable enhanced, relevant dialogue and collaboration.

Retail financial institutions looking to the future need to transform themselves to service accountholders in their channel of choice, and at their convenience. Further, banks and credit unions need to provide the most appropriate offer in the context of an accountholder's life stage and need. To achieve this, financial institutions need to harness the power of PFM solutions or platforms.

introduction

PFM is also known as online or digital money management. Since the mid-2000s, it has attracted the attention of financial technologists and marketers as well as business decision makers across the financial services industry.

It's true that financial institutions have offered advisory services to high-net-worth accountholders and households, yet they have struggled with cost-effectively bringing this service to retail or personal banking segments. With limited insights into the financial goals and behaviors of their accountholders, institutions face challenges in cross-selling the right products and services or tailoring them to meet specific needs. As a result, banks and credit unions miss an opportunity to increase engagement and loyalty.

The sharing of insights with the accountholder, fine-tuning the data with the accountholder's participation, and inducing this through accountholder experience design are the key highlights of PFM.

Sixty-seven percent of banks and 70% of credit unions list improving the accountholder experience and service delivery as their top priority for the upcoming year.

accountholder experience: a top priority in the age of the consumer

A mix of technology trends to acquire and retain accountholders is gaining momentum in the retail banking industry. These trends include consumer-centric interfaces, advanced and integrated money management features, advanced search, gamification, real-time customer relationship management (CRM), merchant-funded rewards, social media (Facebook and Twitter, among others) tight integration, video banking, and so on. The adoption rate for each technology ranges from around 5% (gamification) to 30% (money management) for global banks on an average.

Sixty-seven percent of banks and 70% of credit unions list improving the accountholder experience and service delivery as their top priority for the upcoming year.[1] It's no surprise – experience is a differentiator and has become even more pronounced in today's digital era, and in the U.S., even when a person loves a company or product, 59% will leave after several bad experiences and 17% after just one bad experience.[2]

In the war to retain existing accountholders and attract new ones, accountholder experience is the key to success. Meeting and exceeding expectations is the foundational step in the accountholder journey. For instance, wealth management services, previously only for high-net-worth accountholders, is now offered by some institutions to any accountholder. Providing this service can make a crucial difference in loyalty and experience.

the state of consumer finance

The majority of Americans (67%) are not financially healthy,[3] according to a recent report by The Financial Health Network, and according to new research from Plaid, 56% of people in America say they could not have kept up with their finances during COVID-19 without digital apps, products, and services.[4] Over 80% of people expect their financial institutions to help them improve their financial health, yet only 14% "strongly agree" that this happens.[5]

This means that financial institutions are in a unique position to make a positive impact on the financial health of their accountholders, by providing the tools your current and future accountholders are seeking.

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a stronger accountholder experience requires business transformation

You have a daunting number of challenges. Here are some of the key challenges faced by retail institutions in significantly enhancing the overall accountholder experience:

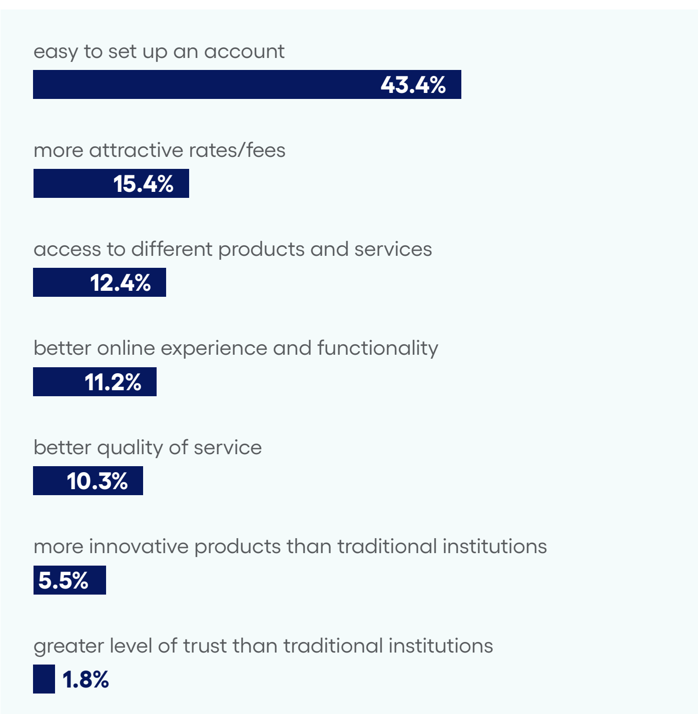
Scalable Assistance

The adoption of mobile devices and smartphones has exploded globally. Legacy product portfolios, technology platforms, and business applications and processes cannot provide sufficient support for such an unpredictable and growing demand.

Accountholder Retention

Quick analysis of common accountholder complaints reveal that the sale of products and services are not appropriate in many cases. Poor service, process frustration, below par financial returns, or excessive fees will lead to accountholder attrition. And in the digital world, any negative experience will be easily broadcast to a much broader social network and adversely impact the accountholder base of the financial institution, as well as its brand. The risks are many.

Top 10 reasons consumers adopt fintech solutions[7]



Digital Disruption

The rise of third-party payment providers, social media/digital content, and disruptive new alternate currencies such as Bitcoin, demonstrate that banks and credit unions are no longer indispensable.

Disruptive technologies in fintech are challenging the traditional banking model and consumers know it. The financial services industry is being forced to rethink how they do business, because more consumers are embracing mobile and digital channels each year and at an increasingly quicker pace.

Like any retailer, financial institutions must deliver accountholder engagement via these emerging channels while personalizing the accountholder experience and delivering timely, relevant offers. Digital disruption is remarkably data driven.

Complexity In Decision-Making

Let’s face it; consumers are confused. They have to choose among many products offered by different financial institutions, each with different reward options. Retail banks and credit unions lack comprehensive real-time decision-making capabilities to help accountholders make the right decision at the right time. As a result, it becomes more difficult for them to differentiate their products and services from their competitors and retain accountholders.

Commoditization

Fundamentally, there is little differentiation between Financial Institution A and Financial Institution B. Banking is not sexy and remains a chore to customers and members. As much as the industry tries, processes remain fraught with friction.

To address these critical challenges, banks and credit unions must undertake business transformation initiatives from both product and operational perspectives. Retail financial institutions around the globe have already realized the necessity for this and are starting to make investments to improve their product and service portfolio.

According to Foresights Business Technographics Budgets and Priorities Survey, a majority of banking, financial services, and insurance companies ramped up the capabilities of their products and services aggressively, starting in 2014. When these companies were asked how they expect their spending on various software categories to change in the future, 46% foresaw increased investments on business intelligence and real-time accountholder and business analytics.

embrace personal financial management for continuous growth

Improvement on a particular business case or channel is not enough to engage accountholders; retail financial institutions need comprehensive, integrated financial management solutions to deliver a comprehensive range of potential benefits. Aligning customer and member benefits with your business objectives enhances net returns of investment and accountholder satisfaction.

There are quantifiable and non-quantifiable benefits of PFM and they tend to land into three groups:

- Improved accountholder engagement
- Cost reduction
- Increased revenue from various sources

Retail financial institutions can drive the adoption of digital banking by promoting embedded PFM offerings.

All these benefits could help retail banks increase loyalty and improve new accountholder acquisition through differentiated offerings.

Improved Customer Engagement

Tailored advice: Consumer insights from money management such as spending categorization and behavior analysis will lead to more consistent, automated, and efficient financial advice.

Improved accountholder care: Retail banks and credit unions can collect insights from financial management platforms and analyze the banking activities of their accountholders across other institutions and fintech apps in addition to the transactions on their core. These engagement patterns provide crucial information that facilitates better service, while simultaneously allowing banks and credit unions to engage in preemptive actions (alerts, notifications, or personal contact) that increase accountholder engagement and improve retention.

Reduced credit risk: With deeper insights into the financial situation of customers and members, retail financial institutions can also help identify risky accountholders and provide lending services in a more responsible manner, thereby avoiding bad debts as well as ensuring that accountholders do not take on too much debt.

Cost Reduction

Increased adoption of the digital banking channel: Retail financial institutions can drive the adoption of digital banking by promoting embedded PFM offerings.

Reduced cost on paperwork: Giving accountholders easy-to-use digital statements and financial overviews or dashboards can encourage them to suppress paper statements and make the switch to the less expensive digitalonly reporting options.

PFM/Non-PFM Stats[8]

	Virginia FI $265 million in assets PFM/Non-PFM	Minnesota FI $4 billion in assets PFM/Non-PFM	Texas FI $773 million in assets PFM/Non-PFM
Average services	2.42 versus 1.58	3.12 versus 2.26	8.7 versus 4.4
Deposit balance	$13,775 versus $8,262	$16,789 versus $17,599	$14,200 versus $9,300
Retail loan balance	$4,303 versus $2,032	$22,606 versus $17,099	$10,000 versus $6,200
Debit transactions (per month)	N/A	N/A	24.3 versus 8

Increased Revenue

Better cross-sales: With accountholder insights gained from personal financial management and personalized marketing messages, retail financial institutions can take advantage of cross-sell and upsell opportunities to deliver more relevant, meaningful offerings. Around 85% of retail banks globally consider that a well-designed PFM solution could help them increase revenue from cross-selling by more than 20%. The key to cross-selling is a position of advocacy.

More marketing opportunities in the digital banking channel: With 71% of all Americans now using online or mobile banking for their banking needs,[9] PFM solutions will help retail banks and credit unions draw attention to product and service offers available within the digital banking channel. Tight PFM integration between the core and the digital banking provider is necessary to take advantage of these marketing opportunities.

pfm is a remarkable enabler

You, the retail banking executive, have told your audience that you are a financial provider of choice and seek to be the primary financial institution. But are you? Comprehensive adoption of PFM has the potential for bringing financial advocacy, enabling goals, and creating a long-term engagement between the financial institution and the accountholder. Yet, continuous information collection can be sensitive from an accountholder standpoint, as it relies on expense categorization and getting the accountholder to record the expenses accurately and on time.

To achieve PFM adoption success, automating the categorization process is critical. While accountholders should be encouraged to participate in categorizing their transactions, the financial institution must also use a robust data categorization engine. That will enable the normalizing of transaction descriptions and returning easily understood transaction data to the end users.

Studies reveal that 82% of consumers say they get better results when they use technology to manage their finances, with 77% saying that financial technology makes managing money easier.[10] Near real-time financial analytics are increasingly needed and expected. Instead of looking for a full-fledged real-time analytics infrastructure, which can cost seven figures to build or license, a lighter analytics engine can be used – one that will connect seemingly disparate financial events and merge them into one presentation that is valued by the accountholder. This is PFM.

conclusion

Due to all the benefits outlined above, PFM has been attractive for quite some time, yet it struggled to gather quick momentum for various reasons. However, the use of financial technology to manage money has increased dramatically over the last year, with 86% of users now accessing fintech apps at least once a week and 66% saying they plan to use fintech more often for tasks ranging from budgeting and saving to investing and paying off debts.[11]

The dynamics of retail banking have shifted, requiring banks and credit unions to identify and leverage new and better ways of engaging accountholders. Financial institutions must identify and adopt user-centric initiatives to improve engagement and deliver stronger, more relevant experiences. The personalized recommendations, dashboards, and insights provided by PFM help fulfill consumers' desire for actionable information inside a trusted digital banking platform.

Financial institutions can address many challenges by implementing PFM solutions that allow accountholders to manage their finances and achieve financial goals, while improving accountholder acquisition, retention, and increasing engagement within the digital banking channel.

reduce the barriers to financial health

Learn more about Jack Henry's next-generation financial health solutions.

For more information about Jack Henry, visit jackhenry.com.

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