

Personal Financial Management

The Rising Tide of Consumer Demand

Summary points:

- *Consumer demand for Personal Finance Management is on the Rise*
- *By deeply connecting account holders to PFM, institutions can significantly increase consumer retention*
- *Increased visibility into account holder behavior provides a greater opportunity to cross-sell a wide range of related products and services*
- *PFM has a wide consumer appeal, spanning multiple generations*
- *World-class marketing, consumer security, and compliance should be top-of-mind when integrating PFM*

Personal Finance Management (PFM) typically describes tools that help consumers and small businesses track and manage their finances, create budgets, categorize and anticipate spending, and analyze the distribution and performance of their investments. These platforms can be offered in a software format like Quicken, or housed on one screen, accessible from a computer desktop or mobile phone.

Additionally, PFM provides one, centralized location for a banks and credit unions to view any of their account holders' financial products—even products provided by their competitors. Because PFM is at the center of the consumer's financial world, banks and credit unions have an unprecedented opportunity to interact with their account holders on a whole new level. With full visibility of each consumers' spending habits and preferences, the stage is set for better cross-sell opportunities that lead to deeper account holder relationships.

In the face of growing consumer demand for better financial control, it is imperative for banks and credit unions to take online/mobile offerings to the next level. PFM answers the call, helping providers differentiate their online services and develop premium fee-based options.

Why Now?

PFM tools are hardly new—Intuit's Quicken and Microsoft's Money have been around for years. To that end, Mint.com now boasts over 4 million users, more than doubling their consumer base since Intuit acquired Mint in 2009 for \$170 million.

This uptick in popularity shows an increase in consumer demand for better financial control, but it's not just stand-alone providers that are driving this trend. In recent years, several megabanks have also offered some form of PFM to their account holders.

So what makes PFM such a hot topic at this point in time? A perfect storm of three trends and factors:

- The state of the economy has forced people to become a lot more disciplined about managing their finances;
- The Internet has made it easier than ever to get data into PFM tools; and
- Gen Yers are more involved in managing their financial lives than previous generations.

Deeper Account Holder Relationships

What can institutions hope to get out of PFM? Customer retention and cross sales are the primary, expected benefit. Nearly eight in 10 PFM users say it gives them greater control over their financial lives.¹ And when long-term statement and image archives are offered, consumers are more reluctant to walk away, planting the seed for sustained retention.

Nearly 60 percent of consumers bring at least five different types of financial products into their PFM platform, the centralized hub of their monetary activity.² Three-quarters of these consumers use PFM every day to track and manage at least 75 percent of their financial accounts in one place.² Of course, the more products account holders manage within their PFM, the less inclined they are to leave the bank or credit union that provides it to them. This is evidenced by the fact that attrition is 4 times lower among PFM users over non-PFM account holders.³

Cross-Selling for Greater Profitability

Because consumers generally treat PFM as the centralized hub of their financial world, it can be a highly effective cross-selling tool. Visibility of account holders' external financial products enables financial institutions to offer more highly targeted advice and financial recommendations. With clear insight into their account holders' full financial picture, it's easier for institutions to determine which of their products and services have the competitive edge over other providers.

Account holders who readily use PFM through their financial institution are inclined to manage as many relationships as possible in this centralized hub. Here is a prime example of how this account aggregation can lead to cross-selling opportunities for the institution: if a consumer uses PFM to track and manage a mortgage with an outside competitor, the bank or credit union can specifically market to that account holder, by promoting its own superior rates. This ability to pinpoint marketing efforts can significantly help increase share of wallet for banks and credit unions that offer PFM.

PFM also increases web traffic and length of online visitation, encouraging end users to peruse and consider more of an institution's products and services. In fact, at least half of online users who bank with a provider that offers PFM routinely visit their institution's website to check account activity, confirm deposits, and make sure everything is on course.¹

Wide Consumer Appeal

Nearly six in 10 Gen Yers say that using PFM has resulted in them saving more money than they did prior to using this service.² However, the desire for a better savings solution is not only prevalent among younger consumers. In fact, 69 percent of all Americans are worried about a secure financial future.⁴

Interesting distinctions exist between members of the different generations. Baby boomers, Gen Xers, and Gen Yers generally agree that seeing accounts in one place, easily checking balances, and getting finances in order are all “very important” features of PFM. However, younger PFM users are more likely than older ones to place importance on controlling/categorizing spending and creating a budget.

This should be encouraging news. At over 70 million strong, Gen Y will largely define your future consumer base. Offering technology-driven products and services puts you in their good graces and helps assure your long-term growth. But, keep in mind that multiple concrete benefits must be offered to get this target market past any kind of fee barrier.

Best Practices

World-class Marketing Support

Partner with a PFM provider that also offers a full range of marketing services and has the credibility and experience to promote PFM in the financial industry space. It’s one thing to integrate a PFM solution, but quite another to effectively reach the various market segments that demand it.

Peace of Mind is Essential

Early adopter and stand-alone PFM provider, Mint, has seen much initial success. However, twice as many consumers prefer PFM with their bank or credit union over third party competitors; they simply feel more secure using their own financial services provider.³ Consumers now expect their banks and credit unions to offer PFM, but they also expect a user experience commensurate with the best stand-alone competitors. To satisfy these consumers, implement PFM that not only has an elegant interface, but also offers superior functionality. To ensure you benefit from consumer trust, make certain you not only have the proper encryption tools in place, but also clearly impart them across all communications channels.

Always Stay in Compliance

Partner with a provider that has an intimate understanding of compliance best practices. Ideally, one that works with regulatory agencies in Washington, and can provide direction in the following areas: disclosures, marketing dos and don’ts, Truth in Savings, Electronic Funds Transfer Act, E-Sign Act, and general NOW account considerations.

Time is of The Essence

Like any technological advancement in the financial industry, the key is to be proactive. Today’s consumer not only demands the best accounts, but the best possible support services as well. In an increasingly challenging economic environment, people are actively seeking ways to better manage their money. PFM presents a unique opportunity to become much more than their financial services provider. As account holders become more deeply connected to their PFM, their belief in the financial institution offering it only grows. Ultimately, they will view the institution as their most trusted financial ally.

1. Aite Group, LLC, 2010
2. Javelin Strategy and Research, 2009
3. Yodlee Systems Data; Javelin Strategy & Research, 2010
4. A.G Edwards, 2008