How Banks Can Improve Your 'Financial Capability' (and Profit by Doing So)

14 July 2016 By: Mark Schwanhausser

The FINRA Investor Education Foundation's triannual report on Americans' "Financial Capability" this week paints a classic good news-bad news story – and there's a message there for bankers who wonder whether they can profitably play a role in tilting the story toward good news.

The good news is that American finances have improved significantly since FINRA began this project in 2009 in consultation with the U.S. Treasury and the President's Advisory Council on Financial Literacy. That was a time just after the world had dodged a potential economic meltdown. Since then, economic indicators have improved, the stock market is firing at record highs, and interest rates are at rates that are likely to remain low for years to come.

That overall rise in the economic tide has lifted boats at households across the nation. FINRA's survey shows that more households are making ends meet, fewer are struggling to pay bills, 46% have built a three-month emergency fund (up from 35% in 2009), and more than half of respondents pay their credit card bills in full each month (that's a first).

But here's what matters to the nation's kitchen-table CFOs. There's no indication Americans are getting better at saving, most haven't estimated how much they need to save for retirement (56% vs. 39% who have), and 40% feel they are burdened with too much debt. This side of the story is particularly relevant for younger Americans, whom countless financial institutions seek to woo so they can sustain a lifelong relationship as they attain financial clout.

Javelin's Moneyhawks™ segmentation underscores the rewards for financial institutions that expose mobile-first personal finance features to consumers with every banking login and transaction. Moneyhawks are the customers that FIs covet most. They have more accounts, more assets, more complexity, more opportunities for advisory services, and they are pioneers in using digital channels. Most important, they are the most profitable customer.

But the contrast between Moneyhawks and young Emergents is troubling. In many ways, Emergents are a proxy for Gen Y, in the sense that they are mobile-first and laying down financial roots. Compared with Moneyhawks, Emergents are only half as likely to say that they have the capacity to absorb a financial shock, have a sense of financial freedom necessary to enjoy life, and are on track to meet long-term goals. These young consumers are also significantly less likely to feel they have control over their day-to-day and month-to month finances, and to regularly set aside money for large periodic bills.

Banks and credit unions can profitably serve young Americans. But it will take a commitment to digital banking that repositions them as guides along a financial journey – not just as the conduit for transactions. Successfully targeting Emergents will mean refashioning digital banking to expose customers to wise personal finance principals like using direct deposit to save an emergency fund, coaching them on how much to save, and then helping them to measure their progress toward a goal. It will mean redesigning the accounts summary home page to draw the financial connection between cash, credit, and investment accounts – and thereby gradually changing the mindset from short-term transactional tactics to longer-term financial strategy.

The banks and credit unions that do this successfully will be on the path to a healthier ROI, too. FIs that are in an earlier stage of digital evolution commonly quantify the value of digital channels in terms of cost reduction. As we look to the future, however, the payoff from digital services increasingly will be measured by acquisition, retention, and ultimately revenue and the FI's share of a customer's financial wallet.

javelinstrategy.com inquiry@javelinstrategy.com 925.225.9100