5 Banking Trends for 2019
How Institutions Can Survive and Thrive in the Era of Customer Engagement
TRANSCRIPT

Presenter: Stephen Nikitas, Senior Strategy Director

Kate: The Consumer Bankers Association is pleased to welcome you to today's webinar, Five Banking Trends for 2019. How Institutions Can Survive and Thrive in the Era of Customer Engagement, presented by Harland Clarke. My name is Kate and it is my pleasure to be the facilitator for today's event. I would like formally welcome the participants joining us today. Please note that today's call is being recorded and all participants' lines will be muted during this broadcast.

If you experience technical difficulties with the web portion of today's program, please email cba@compartners.com or send a message in the chat box. If you're listening to the program over the phone and you need assistance at any time please press *0 and an operator will assist you. This presentation will last up to 60 minutes and will include question and answer opportunities at the end.

You may submit a question at any time by typing into the chat box on the lower left corner of the screen and clicking the send bottom. I'd like to direct your attention to the links box located on the left of the screen where resources are located for you to view, save or print. Simply click the link of your choice and a separate web browser window will open. This will not interfere with your viewing of the program.

As a reminder, the views expressed in this webinar are those of presenters and do not represent the views of CBA or its members. It is now my pleasure to introduce speakers for today's webinar, Stephen Nikitas and Carrie Stapp. At this point, I'll turn the presentation over to our speakers.

Stephen Nikitas: Great, thank you very much and good afternoon everybody. This is Steve Nikitas and I am blessed today to be presenting with my colleague, Carrie Stapp. I'm going to ask Carrie to introduce herself in a moment, but before I do just a little bit about me. I am a senior strategy director with Harland Clarke. I have been here since 2010 so eight years and running.

In my role as a senior strategy director I help financial institutions to help grow their credit portfolios, their deposit portfolios, attract new account holders. Really help them with a variety of marketing and retail programs. I come to Harland Clarke with about 30 years of financial services industry experience where I held executive positions in marketing, retail, and operations. A little bit about me, Carrie, would you be kind enough to tell today's attendees a little bit about yourself?

Carrie Stapp: Yes, thanks, Steve. Again, as Steve mentioned my name is Carrie Stapp and I'm senior vice president of product management for marketing solution for Harland Clarke. I've been in the role for almost one year. Coming to Harland Clarke from 20 years of experience in the financial services industry where I run marketing and product management and some strategic planning for banks.

Stephen: Great, thank you very much, Carrie. Let's go to our next slide and take a look at the agenda for today's presentation. We've got a lot of battles that we're going to be talking about. We're going to be talking about battles relative to trends that Harland Clarke sees out there. As many of you know, at Harland Clarke, we work with thousands of financial institutions handling their payment programs. We also work with several hundred financial institutions when it comes to marketing and retail campaigns.

These are some of the trends that we see going on at the industry and that we're going to talk about today. We see a battle for deposits, a battle for loans. We see a battle for consumer mine share. You think we're in the middle of World War Three out there the way things are going. We also see financial institutions really focusing on their digital channels and understanding that that is a key way, increasingly a key way, to provide services and products to their account holders.

Then, of course, as we always do we see a focus on deepening relationships and financial institutions using that approach to deepen relationships with their account holders as a real competitive advantage. Those are the trends that we're going to talk about today, but what do we want you to walk away from this presentation with? Let's go to the next slide and take a look at those five or six key takeaways that we'd like you to leave today's presentation with.

On our next slide what you'll learn today obviously, we're going to be talking about the trends, we're going to be talking about the opportunities for you, but we also want to provide you with information on how you can take advantage of all those trends. What opportunities you can implement in order to outperform your competition, in order for you to win the battle, there's a battle again, for customer engagement.

We'll talk about those banking challenges and then drill deeper into how you can invest when you should invest in the customer experience and when it matters most to do that. We'll talk about how you can influence customers to make purchasing decision. Then, lastly, we want you to be able to walk away from this presentation with an understanding on how you can be faster, smarter, better, more engaged with your particular account holders.

That is our objective. So Carrie and I, we'll do our best to make sure that by the time this presentation is over you have learned most if not all of those key points that you see on this particular slide. With that let's go to our next slide and let's start talking about the trends that we see, and here is our first battle, the battle for deposits. Let me start by saying, we see those little bit of a slowdown in bank deposit growth that actually started back in 2015 and it seemed to intensify in 2018 and already in the early stages of 2019.

That shouldn't be unusual, right? That slowdown in deposit growth when you look back historically over the last 50 to 75 years in the financial services industry, we typically see a slowdown in deposit growth when the overall economy starts entering its late stages of expansion. Here we are 11 or so years removed from the last recession. This particular economic expansion of getting a little bit long in the tube.

The slowdown right now that we're seeing is being driven by an increase in short term interest rates and the limited benefit of higher interest rates that we're able to pass on to our depositors. Let's go to our next slide and talk a little bit more about this battle for deposits and what we're seeing. This rising interest environment that we're now in that we've been in now for a couple of years is pretty new to this generation of Americans whether you're a banker or whether you're a consumer.

For financial institutions there's certainly a growing sense of desperation as I just mentioned as a large volume of deposits is needed to fuel our lending machines. In fact what we're seeing now with many financial institutions is that those loan to deposit ratios are approaching 90, 95, 100%. Many institutions with whom we work have surpassed their pre-recession loan to deposit ratios. For consumers though there's a new desire for meaningful return on top of what the banks are looking for.

The consumer hunger for a high rate coupled with a lack of loyalty to a particular bank and the relative ease of opening up a certificate account or a money market account is resulting in a real fierce fight or fierce battle if you will for deposits on the part of financial institutions. Of course, building a stronger deposit base is key to the balance sheet. Banks that successfully target customers through sophisticated data analytics by making compelling product offers and lastly by delivering that strong digital experience can gain real funding advantages and ultimately see lower cost, lower deposit cost when all is said and done.

Now, one other things to keep in mind in this cycle and there's an added pressure on banks to increase their deposit interest rates and that's coming from the online or the branch light banks if you will which have lower operating cost and those can compete for deposits a whole lot more aggressively than banks can. If banks don't meet this challenge head-on they might have a problem meeting loan demand which would have to be mitigated with ire, reliance on wholesale funding.

Ultimately, this could hurt bank's profitability and risk profiles which in current could have an adverse effect on the economy. Carrie, let me introduce you at this point and let's go to the next slide and talk a little bit about what financial institutions can do when it comes to this battle for deposits.

Carrie: Thanks, Steve. The interesting thing about the battle for deposits is, Steve was mentioning it, we haven't really been in a rising rate environment in many, many years and so the financial institutions really are now figuring out tactics, figuring out ways that they're able to identify prospects in the new age of where we are with consumer engagement, and all of the channels that are available to them.

Our first bullet point there is really talking about choosing marketing that targets high dollar deposit. Before I talk specifically about high dollar deposit, the thing I would tell any institution with their marketing department and all of those influencers within the bank or the credit union that is managing their marketing mix really is to understand what the goal is for sure of the financial institution in the need to raise deposit.

There's really two different functions that we're looking at in terms of funding, being one. Meaning we need the funding, we need the deposit dollars in order to fund our loans internally. The second being more around the fee income side. We need to generate fee income, we need to improve our margin and look at non-interest income. For those two perspectives, the first one on the funding side really is where it's at for driving those high dollar deposits, and so understanding and targeting those customers or prospects that are interested in high dollar deposits that have the ability to get high dollar deposit is really important.

Creating custom modeling and understanding not only your customer base but also the demographics around your branch, those that are likely to bank with you is going to be a really important mix here at targeting those high dollar customers which could be both on the consumer and the commercial side. The first thing I would tell you is to create highly targeted areas both in consumer and commercial that speak to these higher dollar deposits that serve the function for funding.

The second is about the custom modeling for a mix of low cost in addition to the high dollar deposit. The low-cost deposits are really more about your core deposit mix. The checking accounts every day that your customer base is using, those typically come with smaller balances. If your bank's need here is to really grow the balance sheet and to create funding for your institution, you're not going to get that just on these low-cost core checking deposits alone.

However, if you're on the fee income side or needing to increase margin and that's really your purpose, then you really want to have a strong base of that low-cost core deposit which is much more transaction oriented. Custom modeling around those two different topics, understanding not only your existing client base and how they're utilizing your account, but then looking at the propensity models and different modeling techniques to identify around your market area, where are those pockets or opportunities to bring in additional propensity is really an important factor there.

The more targeted that you can get in that approach really becomes much more cost-effective than general acquisition campaigns, especially if you have an established brand in the market. Evaluate your brand proposition, evaluate all those measures that would say, does my customer base already know who we are? Let's get targeted and really go after whichever side of the balance sheet or it could be both that you're taking a look at here in terms of funding or fee income margin improvement.

From that perspective, I would tell you on the low-cost core deposit side, I think it's really important to have an ongoing always-on type of approach to marketing for those low-cost core deposit. Generating that deposit takes a little more time than targeting the high dollar deposits that you can bring in that are really rate based. Having an effective mix where you're low-cost core deposit marketing is a consistent message out in the market where you're capturing that churn as it's happening is really important with consistency, and then coupled in here with the high targeted on the high dollar deposits create really a nice strategy for ongoing deposit marketing. Steve, additional comments from you on that?

Stephen: Carrie as I look at this slide and hear your comments and the importance of being really focused and targeted on who you want to reach out to. I couldn't help but think about going back to the- I'm going to date myself here for a moment but going back to the mid-1980s, a couple of instances I remember from back in the day. One was my dad took me to a local credit union. We grew up in central Massachusetts. Took me to a local credit union that was having a, as they were calling it a sale on money, at the time.

It was a 15% five year CD. I remember when he took me to the credit union branch office there was a line of people out the door and around the parking lot to take advantage of that offer. How different things are today compared to what they were at one time. I suspect back then that credit union didn't have to do a whole lot of targeting in order to identify people who might be wanting to take advantage of that 15% CD.

At the same time shortly after I opened that CDF, I remember there was a bank here in New York City that was also offering a 15% CD. Carrie, here was the offer, here was the incentive. That particular bank gave people the option, that you could either take the 15% five year CD and by the way in order to get that it required a minimum $100,000 deposit. Or in lieu of the interest, the bank would give you a Rolls Royce.

Things were so crazy back in those high rate days, high inflation days by the way that it behooves the bank to give you the Rolls Royce rather than the interest. Times have changed quite a bit over the last 30 or is it 40 maybe 40 years now. Again, I hate to date myself. Targeting so much more important today where rates are-- We won't see those 15% rates again in our lifetimes, I don't think and certainly much more difficult for institutions to go out and attract deposits than it was at one time.

Let's go to our next slide and let's talk about our next trend, and trend number two is the battle for loans or the battle for credit. Let's go to our next slide. In on our next slide here, this is quite an economy that we're in today. We've got low unemployment, I guess we're in a historically low period of unemployment. We've seen home prices come back from again, the recession of 2008.

We see consumers buying cars, they're buying boats, they're buying second homes. We see the workforce participation rate going back up again. People are using credit cards and lo and behold people are going on vacation. In fact, we see that American optimism about their personal finances has actually climbed to levels that we haven't seen in almost two decades. Today total outstanding US consumer debt will soon exceed $4 trillion. Think about that for a moment, $4 trillion.

Loan acquisition is always ranked among the top three priorities for financial institution marketers, but as always it's fierce out there. Competition is tough and it's growing. It might not surprise you to learn that FinTechs were responsible for better than a third of all the personal loans that were written last year. That was up from just 1% back in 2010. In fact, mortgage lending conducted by FinTech is growing by about 30% annually.

Nonbank lenders posted $200 million in residential mortgages last year. These new entrants into our business, into our landscape is really starting to make an impact, albeit still nowhere near the volumes that financial institutions that banks and credit unions see today, but they're growing. What we also see is FinTech collaborations and partnerships are transforming the auto lending world.

In general, we see major banks are partnering with many FinTechs in order to streamline the car loan application process, streamline the decision process, then take as much friction out of the borrowing process as possible. Some people believe that these FinTechs really have it right. They embrace the fact that consumers are interested in speed. They want a fast application and approval process.

These FinTechs know that on average, about two out of every three borrowers commit to a loan offer within a week of initiating their search. They fully understand the importance of taking the guesswork out of loan marketing and reducing the anxiety that many people experience when they go through that application process. With that, Carrie, tell us a little bit about how these banks can take advantage of what we see going on in the consumer borrowing landscape.

Carrie: The important thing about the rates for loans really is just as important as the deposit side in this rate environment. We hear the Fed talking now back and forth-- Can you actually advance the slide. We hear the Fed talking back and forth about now are they actually going to be raising rates, maybe holding steady for a little bit. What this really creates is a little bit of a period of uncertainty for financial institutions.

The thing I would say regardless is that the loan demand is going to continue to get tougher and tougher, particularly if rates do continue to rise while we're all in a push for deposits as we just talked about. I do feel like the lending's going to quickly come as you're working to create margin and hope until we price some of the low loan rates that have been out on the books for quite some time, and that's tightening up.

When we think about how to engage the consumer in lending with your institution, it really is multifaceted here where, again, your marketing is going to be really important. It really needs to align with your bank's strategy on the application and approval process. As Steve mentioned, everything is getting faster. Everything's getting much more digital. When I was working for the last financial institution that I was with, and we were creating an online digital mortgage, centralized division.

We were doing a lot of marketing through digital and all of the modern methods of marketing technology. We had a high abandoned cut rate where we had consumers that were coming to our application starting to fill that application out, and then abandoning at a certain point. A few months in, we started taking a look that our volume, our balance is not growing the way that we had anticipated.

Our first glance was to say the marketing is not working. What we really found was that our application and approval process didn't match our marketing. That can be an even bigger problem when we're driving a certain brand and driving consumers through certain channels, and then we don't have the ability to take them to point of sale or to fruition. The first thing that I would tell you is to embrace that the consumers want that best application and approval process.

Align your marketing and you're targeting to how your financial institution is able to take those applications and go through that approval process, what's your value, and really highlight that value in the marketing, and then give that consistent brand through the entire experience. The days of marketing sitting separate from the technology groups really does need to end if it hasn't already in your financial institution because these two things are just becoming so much more aligned today that they need to be in synergy, so you're giving a consistent brand across all these channels.

The second thing is adopting an always-on loan marketing philosophy. This is something that at Harland Clarke, we've had a lot of experience with and started to really see momentum in this area where you are able to create pre-qualified offers and deploy those out to your customers on a consistent basis. What that really does is allow them to take the guesswork and the anxiety out of, "Am I going to get approved?"

Particularly with generations who don't have a lot of history with credit knowing what it means and a little bit more uncertain with their financial background, yet want to be responsible. As they're anonymously looking for lending online and wanting to anonymously sell an application and see, "Am I going to be qualified for this before I go in and talk to somebody and get a denial?"

Having a pre-qualified or pre-approved even depending on your bank's compliance strategy and always having those offers on in a multi-channel way out to your consumer base is really a strategy that at Harland Clarke we believe in and that we foster every day. Again, when your consumer is out buying a car or buying a home, it helps them to know that they have already been pre-approved by their bank and what their bank has to offer.

The interesting thing about loans here is nobody technically unless it's a down rate market really is out searching for a loan. It's not something that you and your spouse, or you and your family members want to just go shop for. No one says, "Hey, let's go shopping for a mortgage," or an auto loan the way that they do. "Let's decide to move and buy a new home," or, "Hey, let's go to the car dealership or look online for a new car."

Understanding those shopping cues that your customer base or prospects are in the market, and then presenting them earlier in their shopping base with either an invitation to apply or like I said, an always-on pre-approval strategy really does put your bank in front of them in a more holistic way looking at that entire lending life cycle of how they actually go about deciding to get a loan. Like I said, the loan is rarely on its own. It's usually targeted off of some other greater purchase.

There are definitely digital ways for your financial institution to know how they are out there on the market shopping, and how do you target them and have these always on loan marketing offers out there. The last thing is, giving the consumer an easy way to access review and accept their pre-qualified loan offers. If you are thinking about doing pre-qualified loan opportunities and having those out in front of your customer, again, back to the point I was making earlier, make sure that it aligns with your ability to capture that loan at point of sale.

That's going to give a much better-engaged experience for your customer that they not only know. My bank have laws that I'm already qualified for this loan so I'm going to choose them because it's taking the guesswork out, but it's pretty easy for me to just go ahead and click the button before the dealership provides me with whatever direct auto that they're working with or before the realtor puts their favorite banker in front of them. That happens every day. Really it's about capturing the hearts and minds, and being in front of them when and where they're ready to buy. Steve, back to you.

Steve: Thank you, Carrie. As you were talking, I couldn't help but think about the friction aspect. It's do whatever we can to make it is as easy as frictionless as possible for the consumer to turn to us when they do need credit. I couldn't help but think about a lot of studies I've read recently where no ideal consumers, for example, will ask if Amazon, if Apple, if Google were to start offering financial products and services, what's the likelihood that you would do your banking there.

The percentages are pretty high among those particular age demographics in some cases better than 50% say they would do their banking with those entities should they start offering financial products and services. That's a little scary I think for us. Carrie, I did something about a month ago that I never thought I would do. Probably those of you on the phone will be shocked when you hear it as well, but I actually got an Amazon Prime membership for my family.

Now I'm not the biggest Amazon Prime person in the world, but I was interested to learn that there are better than 100 million Americans who are Amazon Prime members. Should Amazon get more deeply engaged in our business, they right away have an engaged audience in front of them that they've got opportunity to market their products and services to relatively easily. It's really important that we make it fast. We make it easy. We make it seamless if you would.

Carrie: The other point about that is, even if they aren't going to be entering into the financial services world, they're still setting the stage for the consumer's expectation at personalization and knowing their shopper, knowing their customer, and having that really streamlined checkout process. I am a huge Amazon Prime customer. Even if I'm thinking about buying something from a different store, my daughter will bring something to me. That, "I really want these pair of pants," or whatever it is. I always go to Amazon first.

Here they don't have to re-enter everything in terms of my credit card. In addition, they're giving me the additional things that may go along with this. It really becomes much more personalized to my experience. I think that financial institutions really need to pay attention to that and figure out how they can create that same experience in the personalized one-to-one discussions in that same manner because it's what the consumer is expecting.

Steve: Absolutely. Absolutely. I held out as long as I could, Carrie, but I finally baffled and joined.

Carrie: [laughs] Welcome, friend.

Steve: There we go. Let's go to the next slide. Let's talk about our third trend on this next slide and talk about the competitions for consumer mind share. I can't help before we get into this discussion thinking about when I was on the bank side of the house eight or so years ago. I wanted to share this vignette with everybody. I used to do focus groups every quarter with the account holders at my financial institution and I had done this for years.

The way this program work was people would sign up for focus groups for an entire year, Carrie, then they would meet on a quarterly basis. For example, one night a quarter, I'd have the Gen Yers come in. The next night, I'd have the Gen Xers come in. The following week, one night I'd have the baby boomers come in, and then the next afternoon for lunch, I'd have the seniors come in.

Carrie, I had to get the seniors in for lunch because they couldn't stay awake for dinner, so I had to get them early while they were still awake. During these focus group sessions, we would bounce off a variety of different things. Here are new products. We're thinking about new services, thinking about opening up a branch over here. One of the sessions was always focused on advertising in direct mail.

I have to admit when I was at this particular financial institution, Carrie, I was a client of Harland Clarke. I was probably mailing three-quarters of a million to a million pieces of mail out every year, onboarding programs, cross-sell programs, new mover programs, **[unintelligible 00:33:38]** programs, you name it. We were aggressively marketing. I would ask the demographic groups that came in each one, the Gen Yers, the Gen Xers, the baby boomers, the seniors. "Look, am I inundating you with direct mail? Am I communicating with you too much?"

What I would hear year after year, age demographic after age demographic was, "You cannot communicate with me enough. I want to know what my financial institution is doing. I want to know what's going on. I want to know what products are available, what specials you guys are offering. If I can't take advantage of it, I might tell my son, my daughter, my spouse, the next door neighbor, a work associate, a friend, whoever about what's going on at the financial institution."

I learned a lot back then about the battle for the consumer mind share and the fact that is a landscape than I believe that many financial institutions don't pay enough attention to when it comes to trying to create that top of mind awareness among your consumers, as well as your prospects. Let's go to the next slide and talk a little bit more about this battle for consumer mind share.

It used to be that the people would turn to their bank for anything that was financially related, but as we all know, right now, consumers have a large or a wide variety of options for financial services. As a financial institution, as a bank, it's up to you to convince your customers and your prospects that you are relevant, that you know them, and that you have their best interests in mind.

I saw a study the other day that was surprising. It was a readability study. In this readability study, this was an educational organization that looked at paraphernalia collateral material that financial institutions put out. On this readability study, Carrie, it ranked readability from a scale of 1 to 100, with 100 being the most readable. Now up around that 100 level were novels like Harry Potter that based on the jargon, and the syllables, and the length of the words, and all that what made things readable.

This Harry Potter novel's up around 100 scale. Down there toward the lower scale where things got a little bit difficult, were things like the Harvard Business Review, or instructions on how to play chess. Well, unfortunately, on the end of the scale that was kind of closer to instructions on how to play chess was the readability scores for financial institutions, somewhere between 40 and 50.

As we're thinking about consumer mind share, and as we're thinking about how we let our account holders in prospects know what we offer, we probably need to do a little bit of a better job of how and what we're communicating, how we're communicating it to our account holders and prospects. Don't lose sight of the fact as I just mentioned that your customers like hearing from you.

We know from research that account holders are open to digitally driven offerings that have a practical value, for example. In fact, better than one out of every three consumers would like their bank to help them make major decisions, major purchases by sending them relevant information on the products that they offer on their rates on a real-time basis. Nearly one out of every two customers out there wants their bank to send them information about the services as their need arises.

77% of consumers say that they're that marketers still lack that comprehensive view of the consumer in order to create a more relevant experience for the customers. Some things to consider when it comes to the battle for consumer mind share. Carrie, tell us a little bit about how financial institutions can take advantage of this focus.

Carrie: You can advance the slide. The interesting thing here is-- Steve, I think all the points you make are really good. I think the real rub starts to come in now in today's environment about all of the ways that we can touch our customers and all of their different channels. The interesting balance that you have to keep in mind is the right level of communication at the right time with today relevant products.

I think that the evolution of what's happening from a customer engagement perspective is really the ability to know your customer and communicate with them but only about those products and services that fit their need today. That's a big shift from understanding the-- First, it's going to be this offer, and then it's going to be this offer, and then it's going to be offer the down the road, but really keeping back consistent message that, again, brings that personalization to the needs and gives the consumer the feel that the bank really does know them, and knows how they're operating, and knows what's best for them right now in that consultative approach.

I'm going to speed up just a little so we make sure we get through our slides. The first thing I would say is invest in analyzing your institution's information and make sure you know your customers. I think it's important to understand how they're using your products, how are they engaging with you. The bulk of the customers if they're engaged in things like your debit card usage or remote deposit capture, or online banking, mobile banking, whatever it is, understanding those pockets of who's operating in what way, coupled with the information that tells you how they respond and communicate back with your bank.

What are those channels of communication that they respond to the best, which could include social media, email, your website, your contact center, your branches. It can include a whole variety of things that requires that seamlessness across the board, and that's not an easy thing. That's not an easy thing to tie together. The best thing I think you can do is really analyze your institution's data and know the customers and how they're using it.

Then, you can start to take that knowledge that you learn about how they're using you, how they're communicating with you, and then who looks like those customers that are doing all the right things, but they're not doing it, and you take all of that knowledge and create marketing journeys and customer engagement journeys that allow you to create a comprehensive multi-channel communications approach that starts to really engage the customer and the usage of those valuable deposits and loans that we talked about driving in the door.

I think, if you can have that ability to understand your customer base and then find those pockets that there's opportunity for growth, and then utilizing those customer journey of what's the best way to engage this customer, really does start to help. I think the other thing is, the right customer with the right message at the right time, is really about relevancy to where they are in their life cycle, relevancy to the products and services that matter to them today, and I think the other thing is what's in it for them.

I think that from a financial institutions perspective, we really need to take a look at what is it we're trying to do in trying to solve for the customer, and let's position our messaging and the solution that we are presenting to them in a way that shows them what's in it for them, instead of, "Look how great my bank is that we just launched this new benefit and feature."

Banking really is in the backdrop of everything we do. If I buy an ice cream cone, I'm either using my debit card, or I need access to cash. If I go clothes shopping, if I'm on a vacation, whatever it is, I need access to my funds, and your bank is always there in the background. Positioning your message with the relevancy of what's in it for the customer, I think really enhances your ability to gain mindshare that they feel much more engaged, particularly if you're communicating with them in the way they want to be communicated with.

Steve: Great. Good stuff, Carrie. Thank you. Relevancy really is the keyword. That's a great segue into our next trend on the next slide. Trend number four that we're seeing. It's about it's about digital superiority. Being relevant these days, among other things, with our customers is having a strong digital platform. Let's go to our next slide. Consumer expectations of their financial institutions are really at an all-time high. Your customers expect you to be where they are, when they are, when they need you, and to do all of that in a truly seamless manner.

Experiences like the one Carrie and I were talking about earlier with Amazon, for example, have really shaped consumer expectations about their bank. As customers become more digital, they're more demanding, they're more tech savvy. The legacy bank infrastructure becomes strained to support the new modes of engagement and grow digital efforts significantly. In response to the increasing competitive pressures and our customers' rising expectations, banks around the world are really investing aggressively in digital transformation projects.

In fact, what we see is that, by 2020, the expectation is that financial institutions will allocate almost half of their annual IT budgets simply to digital transformation. Carrie, on that note, tell us how our attendees can take advantage of that trend.

Carrie: This is really such a hot topic. We've done some research here and some surveying of banks all across the country. It's pretty rare that when we're out talking to financial institutions, that when we're talking about a disruption and an investment in digital, that it really is about improving the service that they're offering to the end consumer. It's pretty rare that we don't have a majority of the financial institutions in the room or whatever setting that we're in, that say, "We are not going to be investing in that."

It's a majority of them when we ask, "Do you have a online banking conversion or a debit card reissue or any sort of new technology? A website revamp. Anything that's going to cause a disruption as you increase your technological capabilities to stay competitive in this market?" It really is unusual for us to hear them say, "No, we are investing in that."

We thought this was an important topic to talk about when it comes to really engaging your customers because, again, we're talking about how to drive deposits, how to drive loans, and then we have them in and engaged and we present a disruption to them, such as an online banking conversion, or even an upgrade to your existing platform. You even change where that login button is on the bank's website, and it's pandemonium in some cases, because nobody knows what to do.

There's really an opportunity here during times of disruption to, don't fear it, lean into it, and make sure that you have a really strong plan in place for communicating. Steve, this is where I would tell you, you can't over-communicate enough. This is where the consumer needs to hear through every channel possible that there's going to be a change, what's involved in that change. Again, back to the message of, what does that mean to me? What's in it for me?

Tell them the benefits of what's going to be on the other side of the disruption, and the information of what could potentially happen, what's going to be affected on their account. The example of we're moving the login, show them an actual visual of where the new login's going to be, that type of a thing. When you're in the midst of some sort of a digital change or a conversion, as you're ramping up here, really make sure you're looking at that holistic customer experience and put yourself in the situation of the customer.

I know when I was at the financial institutions, it was really hard for me sometimes to step back, because I was in so many meetings and I knew exactly what was going on, and why didn't everybody know what was going on? Really, communicating that is really important. The second piece is investing in the technology and roadmaps and resources during the times of transition.

Really understand, again, how your consumers are communicating with you every day, through your contact center, your branches, your website, social media, and accurately plan for an uptick or overflow across all of those channels. Make sure that your customers, during that time of disruption, can still contact you quickly and easily, and not spend hours or even more than 10 minutes waiting on a response in these cases.

Really plan out a roadmap for what does this particular customer journey look like through the disruptive phase, and make a plan for each one of those stopping points. Again, over-communicate. Communicate the changes in email, communicate it on your website. I really highly suggest landing pages. Anything that you can do to have all of the information out and available for the consumer.

History would tell us that, hopefully, they won't notice, but they're going to notice. The more that you're out there in front of them giving the expectation, it really helps to build your brand and build that customer loyalty along the way. In times of disruption, we have a lot of experience doing this through our contact centers and other areas.

To really estimate that impact and know how many touch points and customer communication needs to happen, again, marketing and the technology teams really need to be aligned here. Marketing, as you brought into the loop, as soon as that technological advancement's been identified, so that a strong plan can be put in place.

Steve: Excellent. Thank you, Carrie. Let's go to a trend number five. It may be our last trend, Carrie, but it is no less significant than any of the prior four trends that we've gone through today. In fact, Carrie, I'm sensing a common thread as we go through these trends in many ways that revolves around communication. Let's go to our next slide.

On our next slide, we know, for example, that when customers are highly engaged, they simply buy more products and services from us. They think of us as their PFI, they are loyal and those are key hallmarks of a very strong relationship. However, only about 12% of financial institution customers consider their relationship with the bank or their business with a bank to be relationship, as opposed to transactional in nature.

That's a shame, because those account holders who consider to often have or consider themselves to have a relationship with us, typically, have one to two more products and services with us on average than those customers who feel that they're only transacting business with us. In fact, the majority, about 55% of relationship based customers, say that they're really satisfied with their primary financial institution, compared to only about 40% of consumers who are transaction based.

There's a real opportunity there for us to increase satisfaction when the interaction is relationship versus transactional focus. In fact, Carrie, there was a study that I saw last year from J.D. Power that said that the overall satisfaction rates among customers, those customers who feel that there's a go-to person at the bank or the credit union is significantly higher than those account holders who feel that there's no relationship and it's all about the transaction.

Keep that in mind, as we know, for example, that with baby boomers now retiring in droves, there's an expectation that some 30 trillion, trillion with a "T" in wealth is going to be changing hands in the next coming decades. An opportunity there for banks to really reach out to existing account holders, strengthen that relationship with them, so that as that wealth transfer does occur, the recipients of that wealth don't move their balances to another financial institution. Carrie, tell us how if you could on the next slide, how the attendees today can take advantage of that.

Carrie: Yes. See, this is a topic that I could probably spend all day talking about, so it's really hard for me to sum this up in just a few minutes and to try to summarize really what needs to happen. Really engaging that customer, again, across all your channels is just critically important, and ensuring that your brand matches across all of those.

Again, talking about, how are we marketing? How are we servicing the customer? How are we able to take in those applications? How are we able to service that customer? All of those things really need to line up and be available in today's environment. When you're looking holistically about how you engage, knowing that your customer is going to come to you in any one of those formats. Again, calling, emailing, texting, chatting.

Understanding how your customers are using you and equipping those personal touches is really, really important. Then, fostering the relationship as a long term endeavor, I think we hear so many financial institutions talk about "onboarding". It really has evolved of late from traditional two by two by two programs or 30, 60, 90 day programs, into really understanding that customer, where they're are and how you bring them in and get them engaged.

Again, it's going to require knowing your customers, knowing how they're using your services, knowing what they're not using, and touching them in a timely manner to help get that engagement and showing them what's in it for them. Again, it's really bringing all the other points full circle about how do you create this full-on engagement in a way that actually serves the customer that they want to be served.

By fostering relationships, you're constantly solving their problems along their journey. You're identifying their needs at their next life stage, able to present them with an opportunity to expand their relationship with you. Again, that makes it easy at point of sale, that's relevant to them and the time that they're looking at right now, and deliver to them through the channel for which they are used to operating in. That's really demanding, it's a really demanding thing for financial institutions, but it really is what's happening in today's market that we all need to gear up for.

When we talk about onboarding, this really is what it's about, but not in a traditional 30, 60, 90 day type of onboarding. It's recognizing that after they've open their checking account, if they haven't activated their debit card and giving them the benefit on how to do that and how easy it is to do that. If they've opened a home equity line of credit, but they've not drawn on it, it's giving them the benefits of understanding how they can use their home equity line of credit and what the benefits are and how easy it is to use.

All along that way, being relevant and not over-- and invading them with just so many offers becomes the trick. It really is balancing out and creating these customer journeys and then trying to, I'm going to say, put your customers into those journeys, so that you're following them all the way through. Again, and the last point here is really assisting customers to reach their goal, rather than just selling products and services.

Positioning whatever it is that you're communicating to your customer, about why it's good for them and what's in it for them, really does change the landscape in terms of how you market to them and how they embrace your brand and the next product and service that you are looking to offer them with. It's really a full circle endeavor that we get into here at the end, Steve.

Steve: Great. Thank you, Carrie. It's all about the relationship it sounds like. With that, Cate, would you be-- That brings us to the end of our five trends. Let's go to our next slide. Cate, would you be kind enough to remind our attendees how they can ask the questions. Then, I see we have a handful of questions that Carrie and I will jump on as soon as you're done.

Cate: Great. Thank you so much. We'll take some questions from the audience. As a reminder, to enter your question to the web conference system, simply type your question in a chat box in the lower left corner of the window, and click on the "send" button. At this point, I'll turn it back to you.

Steve: Great. Thank you, Cate. Carrie, I see a handful of questions here. Carrie, let me throw this first one out. Here's the question. How can banks enhance their digital offerings to compete with FinTechs?

Then, as an aside to that, should banks be worried about competing with the FinTechs? Any thoughts on that?

Carrie: I do think that, again, the FinTechs are creating these experiences that we're going to, as a financial services industry is going to have to compete with every day. We definitely have to be cognizant of them. I do think that the relationship piece of what banks can offer is going to be a game changer that the FinTechs are going to be working in more of a siloed approach.

What I think really is that, these industries need to come together and how do we partner together, so that we can compete in a simultaneous way. I think looking at the holistic, your market and understanding how they are communicating with you, how they are engaging with you, and then prioritizing which one of those technological advances that you need to invest in is important. I think that your digitally, it is, the digital marketing piece of it also starts to come into play. That doesn't necessarily have anything to do with the FinTechs, but I think you have to have a holistic digital strategy and then work the execution.

Steve: Yes, I hear you loud and clear too, Carrie. I would advocate a collaboration between a bank and a FinTech. Banks bring certain strengths to the equation, our compliance focus, our funding ability, whereas, you've got FinTechs out there that are able to put the product in front of the consumer in a very easy fashion, easy for the consumer to accept. Time for one more question. Carrie, how can smaller banks adopt an always-on loan marketing approach when resources might be limited?

Carrie: I think from an always-on perspective, it's all about pacing yourself and getting that highly targeted, high propensity customer base. Instead of marketing to everybody in your institution or in your demographic, it really is about finding the target audience that has the highest propensity and staying in front of them constantly and capturing them at the time of poaching. I think from that perspective, you, again, prioritize which channels your customers are using the most and have the wherewithal from a triggering perspective to hone in and be consistent with that targeted audience.

Steve: Exactly. From what I see here in my role, I see many small financial institutions, 200, 300, 400 million in assets that small implement always-on marketing campaigns. I find that many of them, I think, are pleasantly surprised at how cost efficiently they can do it, that it's not an initiative that is by any stretch of the imagination going to break the budget and prevent them from doing other things. Well, Carrie, that takes us to, I hate to say it, one minute after three. You and I have exceeded our time limits, so attendees on the phone, we apologize. That is the end of today's presentation. Cate, can I ask you to come back in and tell our attendees where we go from here?

Cate: Absolutely. Thank you. With that, we must conclude today's program. This session has been recorded and will be available in three to five business days. You may access the recorded archive by using the same login information you used for today's live webinar. Feel free to share the recording link with your colleagues. On behalf of the Consumer Bankers Association, thank you to our speakers, and of course, of all of today's participants. Have a good afternoon. You may now disconnect.