Financial Services Marketing:

Top Eight Trends for 2014

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As a financial institution marketing executive, you have a lot on your plate. But quantity doesn't always mean quality. Acting on this short list of top trends can help improve your return on marketing investment, increase account holder loyalty and share of wallet, differentiate you from competitors and drive revenue.

Trend #1: Long-term interest rates will probably go up.

For months, experts have said long-term interest rates would likely start inching up as a result of the resurging housing market and steady economic growth; only the timing and degree seemed to be in question. Some analysts now say 30-year mortgage rates could climb to around 5.5 percent in 2014 – low by historical standards, but a long way from the three percent loans available less than a year ago.[1]

There are, however, some wildcards to be considered. The partial government shutdown in October, the political debt limit debate and the battle over extending mandatory spending reductions into fiscal 2014 could all affect economic momentum and interest rates. Regardless of what happens, says Mara Friedman, Harland Clarke senior market strategist, financial institutions must be ready to help consumers know what moves to make and when. "Interest rates obviously affect demand for home loan products and marketing programs. Even a slight increase could justify a shift from refinancing to new home loans and home equity products."

[1] Kiplinger.com, *Kiplinger's Economic Outlooks:* Interest Rates, October 25, 2013

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Trend #2: Small businesses could be ready to expand.

Leading economic indicators rose in recent months, signaling continued improvements in the U.S. economy as we head into 2014.[2] A more favorable environment could result in new small business formation and expansion, creating profitable lending opportunities for financial institutions. The challenge, according to Douglas Roman, senior strategist for Harland Clarke Marketing Services, is finding the right small business targets to pursue.

75% of small business customers are satisfied with their primary banks, but generally unhappy with the loan and investment products they are offered.

Research by BAI revealed that even though 75 percent of small business customers are satisfied with their primary banks, they are generally unhappy with the loan and investment products they are offered. In contrast, other BAI research shows bank executives think they are meeting their small business customers' needs in this area. To close the gap and better serve account holders profitably, Roman recommends a two-pronged approach. "Banks and credit unions should first take advantage of existing account holder data. This information can be analyzed to create profiles of the best small businesses to target based on behaviors, what works and what doesn't. To expand the market, firmagraphic and other parameters can be overlaid to identify additional 'lookalike' prospects." This fact-based approach is critical, says Roman, but gathering grassroots information is also important. "There is nothing more eye-opening than listening to account holders in the branches and learning from your own representatives in the field. The marriage of data and real account holder insights helps financial institutions know what products will meet customers' needs and drive profitable business."

"Small businesses are generally more profitable than even the best retail customers," says Tom Triozzi, vice president of product marketing for Harland Clarke. "Financial institutions that capture this market now as the economy improves will reap the rewards later."

[2] Bloomberg.com, *Leading Index Signals U.S. Growth to Pick Up Into 2014,* August 22, 2013

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Trend #3: Branches remain important.

Many thought online and mobile banking would spell doom for bank and credit union branches. Not so, says the 2014 U.S. Retail Banking Customer Satisfaction Study conducted by J.D. Power and Associates. Results of the survey's first quarterly wave showed 28 percent of customers visited a branch for personal banking needs, and they were the most satisfied. Those who did not visit a branch in the past year, whether Baby Boomer, Gen X or Gen Y customers, were the least satisfied.[3]

The same holds true for many small business customers, says BAI. Their research shows more than half of all business transactions are conducted at a branch, with less than 25 percent of small businesses surveyed using mobile banking and only eight percent using mobile bill pay. Small businesses tend to value the more traditional, personalized service and local decision-making they get at the branch.[4]

Financial institutions that downplay their branches could be missing an opportunity.

Deb Kennedy, senior business development executive for Harland Clarke Marketing Services, says financial institutions that downplay their branches could be missing an opportunity. "Branches are still vital to large numbers of customers. There are many small business transactions where the owner or manager wants to deal with a real person rather than technology. Branches are also the best place to establish new accounts and build relationships. We believe strongly that financial institutions should continue to support this vital delivery channel."

Tom Triozzi agrees. "We know the role of the branch is changing and the need for branch transactions is declining as mobile and online usage increase. Still, branches must be equipped to provide higher levels of service, knowledge and assistance to meet account holders' rising expectations. Branch processes and technology platforms not only make transactions quicker and easier, but provide high levels of personalized communication and the ability to anticipate customer needs."

3 J.D. Power and Associates and McGraw Hill Financial, *2014 U.S. Retail Banking Satisfaction Study℠*, July 24, 2013
4 The Financial Brand, *Small Businesses Prefer Traditional Banking And Still Rely Heavily On Branches*, March 28, 2013

Trend #4: Content is still king.

Content marketing isn't new, but the emergence of new channels and information access has elevated its status immensely. "Technology has pushed content marketing into another stratosphere" says Deb Kennedy. "Financial institutions can no longer simply sell products and services that matter to them; they must become expert 'curators' who deliver content relevant to account holders when, where and how they want to receive it."

To be seen as a trusted content resource, financial institutions must do a number of things. First, they must develop libraries of financial and other information to help account holders make good financial decisions. Second, they must give customers greater control of and access to information by accommodating their communication preferences, for example, email, direct mail, telephone and text messaging. Next, they should leverage their account holder databases to disseminate content based on account holders' individual interests and needs. This personalized, rather than generic, content marketing approach is more likely to drive desired account holder action and increase loyalty.

"To earn back trust lost during the financial crisis, financial institutions must provide more financial education, help customers make better financial decisions and give them greater control over and access to their money. The financial institutions that provide information and tools to help customers better manage their financial lives will be the ones that prosper in the future," says Triozzi.

Trend #5: CFPB regulations continue to impact operations.

Tina Young, senior strategist for Harland Clarke Marketing Services, says financial institutions have no choice but to learn how to deal with the ever-growing compliance requirements issued by the Consumer Financial Protection Bureau (CFPB). Prime examples of the agency's increasing oversight are regulations directed at the

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residential mortgage industry, the Equal Credit Opportunity Act (Regulation B), Truth in Lending Act revisions and new requirements for loan originators, all taking effect in January 2014. These and other CFPB regulations require financial institutions to develop new policies and operating procedures, train personnel, manage outside vendors and self-audit to ensure compliance[5] – a hefty burden on budgets and resources for even the largest entities.

"CFPB regulations have done a lot to protect consumers in the past two years," says Young, "but they create significant challenges for financial institutions. Bank and credit union executives must be extra diligent as the agency gears up to strictly enforce its rules and regulations in 2014."

Trend #6: Competition for mass affluents is heating up.

Today's mass affluents face much different challenges than in earlier decades.

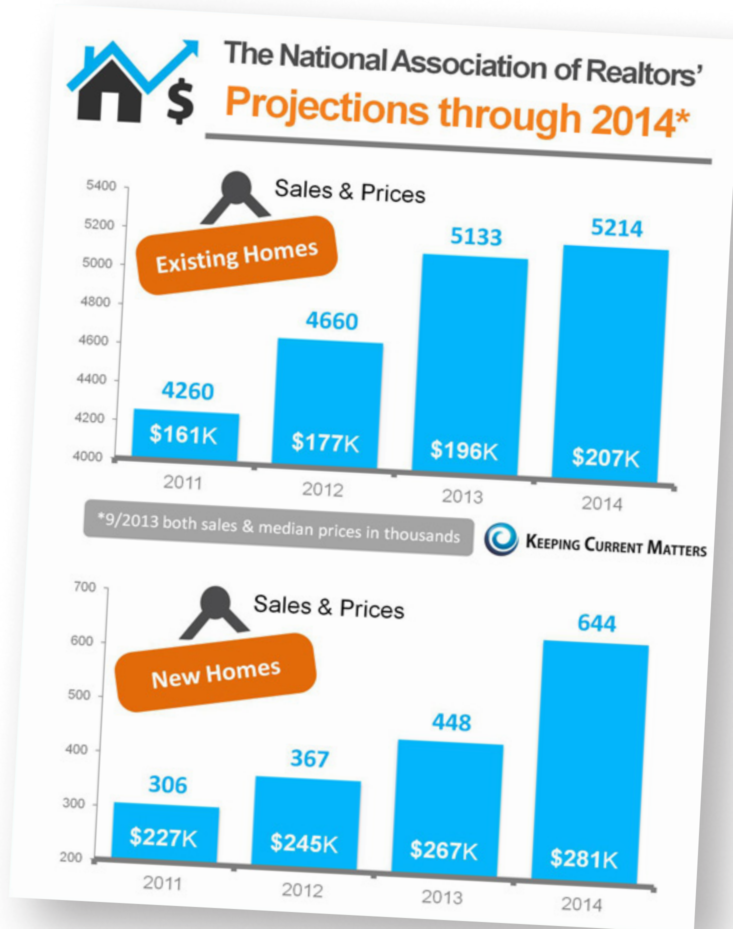
Here's good news for financial institutions: the mass affluent audience is highly profitable and shows strong potential for expansion and growth. The bad news: everyone's going after them at the same time. Aggressive marketing isn't enough to harvest this fertile segment; it also takes a strategic approach.

According to Forrester Research, about 40 million people in America have $100,000 to $1 million in assets, not including the value of their homes.[6] To reach them, financial institutions must stop pushing products, start understanding customer needs based on actual behaviors, and create personalized solutions to address each customer's life circumstances. They must also approach this market with a new mindset, recognizing that today's mass affluents face much different challenges than in earlier decades, such as home value volatility, the impact of healthcare reform on future medical costs and uncertainty about retirement income. By carefully examining these issues, financial institutions will be better prepared to offer the right products and the higher levels of customer service these consumers expect.

[5] JD Supra Law News, *CFPB Snapshot: Fast Approaching Deadlines for Compliance with New Regulations,* September 20, 2013
[6] Deloitte Center for Financial Services, *The Mass Affluent Market: Changed Perspectives,* 2012

Trend #7: Non-interest income must continue to grow.

With no end of narrower interest margins in sight, lower lending demand and increased regulatory scrutiny, financial institutions must continue the quest for non-interest income. Harland Clarke Senior Marketing Strategist Stephen Nikitas says the opportunities are there. "The first places to look are mortgages and home equity loans. Home values are on their way back up and sales are expected to continue rising in 2014. If a financial institution sells mortgages on the secondary market, they make one percent in origination fees on top of closing costs, which are up six percent from 2012."[7]



National Association of Realtor' Projections, 2014 Home Sales

[7] Banknote.com

Checking accounts are another good source of non-interest income. On average, an active checking account generates $92.75 in overdraft fees, $8.33 in service fees, $7.12 in miscellaneous fees and $252.00 in interest income.[8] Encouraging checking account holders to use their debit cards can boost the profitability of these accounts significantly.

Nikitas also recommends financial institutions consider offering fee-generating investment services, which typically lead to the deepest account holder relationships; property and casualty insurance, extended warranty and loan protection coverage to enhance convenience and differentiation; and skip-a-pay programs to increase account holder satisfaction.

According to Harland Clarke's Tom Triozzi, business accounts generate significant non-interest income and often have lower overall attrition rates. "As the economy pulls out of the doldrums and other structural changes occur, we anticipate increased small business formation and activity, creating opportunities to generate additional fee income."

Trend #8: Demand for mobile services is accelerating rapidly.

Trend data suggests people will increasingly use mobile devices for a wide range of financial transactions.

Every financial institution knows mobile channels must be part of the service delivery mix. What some may not realize is the pace at which consumers are adopting these new devices and technologies. A study by Capgemini showed that in 2010, 60 percent of bank customers worldwide had never used mobile banking. By 2015, the percentages are expected to reverse, with more than 60 percent using mobile banking.[9]

Obviously, the growth of mobile devices is revolutionizing consumer habits. The number of smartphone users in the U.S. is predicted to increase from 105 million in 2012 to 174 million in 2016, and tablet users will swell even

8 StrategyCorps

9 Capgemini, *Trends in Retail Banking Channels: Meeting Changing Client Preferences*, 2013

faster, going from 65 million to 112 million in the same period. Trend data suggest people will increasingly use mobile devices for a wide range of financial transactions, including checking their account balances, receiving account alerts, paying bills, depositing checks, categorizing expenses, managing budgets and accessing financial educational materials.[10]

Accelerating mobile services not only provides account holders the experiences they want, it can lower financial institution costs and increase efficiency. Stephen Nikitas points out the wide swing in transaction costs between traditional and digital channels. "At an average of $.10 per transaction, mobile banking costs a fraction of in-person and call center contacts. It presents tremendous opportunities for financial institutions to increase productivity, especially among Gen Y account holders, many of whom don't currently manage their finances at all. Giving them tools and resources they're comfortable with will encourage them to engage and deepen their loyalty."

Delivery Channel	Average Transaction Cost
In Person at a Branch	$4.25
Telephone Call to Contact Center	$1.29
ATM	$1.25
Online Banking	$.19
Mobile Banking	$.10
Source: Javelin Strategy and Research, 2011	

[10] American Banker, *Mobile Banking Will Grow 300% Over the Next Four Years: Aite,* December 19, 2012

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Harland Clarke offers a comprehensive suite of marketing solutions to help financial institutions achieve Primary Financial Institution Status. To learn more about Harland Clarke solutions

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