Franklin Madison Financial Health and Wellness

How to Be a Valuable Partner to Consumers in Difficult Economic Times

Contents

Introduction

Create Consumer Loyalty By Partnering on Concerns

Now more than ever, banks and credit unions have complex challenges attracting new customers and members and retaining existing ones. Financial institutions face unprecedented competitive pressure because they are not only competing with one another, but also with a bevy of fintechs, digital neobanks, and nonbanks such as retailers. Suddenly, it seems, practically everybody is offering some financial services.

In this environment, it can be difficult for financial institutions to differentiate themselves. Many financial products and services and digital experiences have become commoditized.

But there is one major avenue where banks and credit unions can help consumers stand out from the crowd and engender loyalty: **by helping them with their financial health and wellness.**

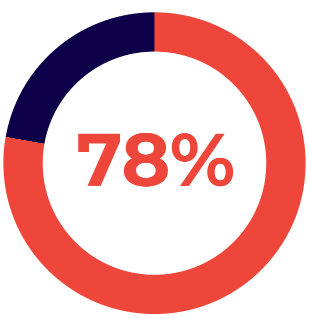
Indeed, we are living in a time when the average person is more concerned about their finances than ever before. A June 2022 survey from Bankrate found that nearly **60 percent** of consumers feel they don't have enough money set aside for emergencies, and **nearly a quarter** of American households have no emergency savings at all.[1]

Nearly a quarter of American households have no emergency savings

As inflation runs high, 58% feel nervous about their savings

Chart: Gabriel Cortes / CNBC   Source: Bankrate survey of 1,025 people from June 3-5, 2022

The current inflationary and difficult economic climate also plays a role in stirring up financial unease. A monthly survey from Morning Consult noted in mid-March 2023 that **consumers' financial well-being has dipped** as they continue to grapple with inflation and interest rate hikes, and middle and high-income households were not exempt from the worries.[2]



According to Deloitte, **78 percent** of consumers remain **concerned about rising prices**. Additionally, consumers report continuing weakness in their intention to spend, especially for discretionary purchases.[3]

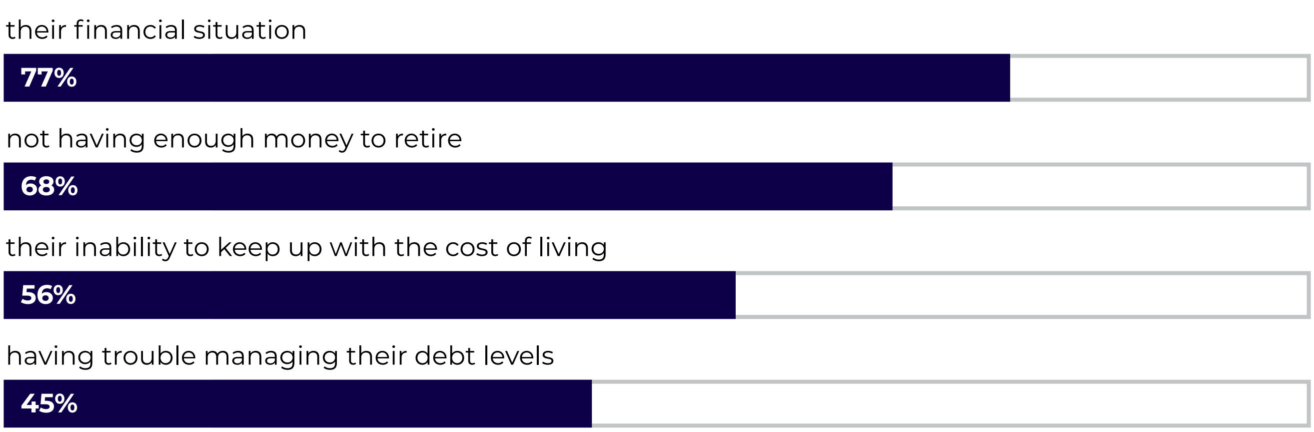
[1] Laurie Konish, "High Inflation Has 58% of People Nervous about their Savings, Survey Finds." CNBC, June 2022.
[2] Charlotte Principato and Caroline Smith, "Financial Well-Being Continues Its Turbulent Streak." Morning Consult, March 14, 2023.
[3] Deloitte Insights, "State of U.S. Consumers: February 2023."

The percentage of respondents concerned about rising prices remains elevated, despite easing inflation

Source: Deloitte Insights, State of the US consumer: February 2023

Inflation will eventually ease, of course, but the economy always has ups and downs, and from a broader perspective, consumers are more concerned about their finances now than in years past.

A survey commissioned by Capital One found that Americans were concerned about:[4]



[4] Capital One newsroom, "Big-Picture Thinking Leads to the Right Money Mindset," Capital One & The Decision Lab, January 2020.

A Financial Wellness Approach Can Help Financial Institutions Retain and Attract Consumers

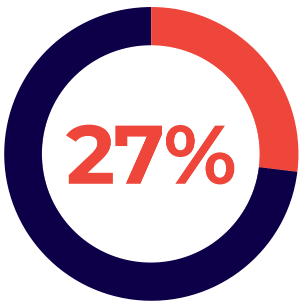
It stands to reason that banks and credit unions can stand out from the crowd by helping their customers and members better manage their financial lives — and there is a clear upside for financial institutions that prioritize wellness.

> "Years of research show that prioritizing customers' financial health needs can drive loyalty and profitability for financial services providers."
>
> **– The Financial Health Network** November , 2022[5]

Additional benefits to banks include fewer problem consumers and a better reputation with staff, regulators, and the public.[5]

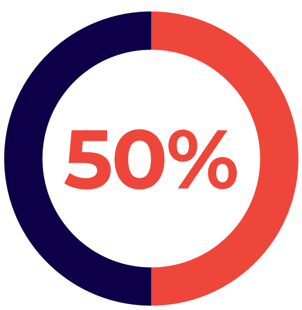
[5] Trey Waters, Elisabeth Rhyne & Brenton Peck, "The Case for a Global Financial Health Platform." The Financial Health Network, November 2, 2022.

Standing out is especially important for financial institutions when it comes to earning the loyalty of younger demographic groups. According to a study from GoBankingRates:



While **27 percent** of Americans currently are members of credit unions, **their average age is over 50**. Younger consumers prefer large national banks or fintechs, the study found.[6]

Meanwhile, banks — especially community and mid-size banks — are **losing customers to digital startups and fintechs**. A big reason cited by consumers is that they do not find value in their banking relationship.



Half of consumers say their **banking relationship is not rewarding**, nor do they feel emotionally connected to their bank, according to a survey from the World Retail Banking Report, published by consulting firm Capgemini and Efma, a global association of banks and insurance companies.[7]

[6] Andrew Lisa, "The Future of Banking: Will Credit Unions Still Exist in 20 Years?" GoBankingRates.com, March 2022.
[7] "Incumbent Banks Must Embrace Data-Centric Capabilities to Drive Personalized Customer Experiences." Capgemini & Efma, April 2022.

New Solutions for Non-Interest Income

At the same time that consumers are feeling dissatisfied and disconnected, financial institutions are also struggling to find new sources of non-interest income. Many once-reliable revenue streams for financial institutions are drying up; for example, consumer groups and regulators have urged banks in recent years to reduce or eliminate overdraft fees (also known as NSFs, for non-sufficient funds), and some institutions have voluntarily started to do so.

The trend to move away from overdrafts was started by fintechs offering no-fee banking accounts and is now putting pressure on regional banks and community financial institutions to find new sources of fee income.[8] When banks lose a stream of income in one area, the search must begin to find ways to replace it.

"I talk to a lot of CEOs and CFOs at financial institutions, and they do acknowledge that **income derived from overdraft fees is going away**, or at least may be reduced," said Dan Bonano, Vice President at Franklin Madison, which helps financial institutions by delivering and marketing insurance products on behalf of the institution.

Financial institutions could make up for this loss of income by pivoting towards a strategy that emphasizes helping consumers with their financial wellness. But many fail to do so.

[8] Garret Reich, "Solutions for Banks Confronting the Loss of Overdraft Fees." The Financial Brand, March 2022.

> "There's not one solution out there to replace this lost income. They need more diversified streams of income to replace some of this non-interest income."
>
> **– Dan Bonano** Vice President at Franklin Madison

Meeting Consumer Needs Amid Uncertainty

Providing financial wellness to consumers can be even more beneficial for banks and credit unions during uncertain economic times, like those we are living in now. We may not be experiencing another Great Recession as we did between 2007 and 2009, but high interest rates and persistent inflation are cutting into consumer buying power.

And it doesn't seem likely to ease up very soon. A survey of 217 economic forecasters conducted by the National Association for Business Economics found that:

>7 in 10
expect inflation to remain above 4 percent through the end of 2023[9]

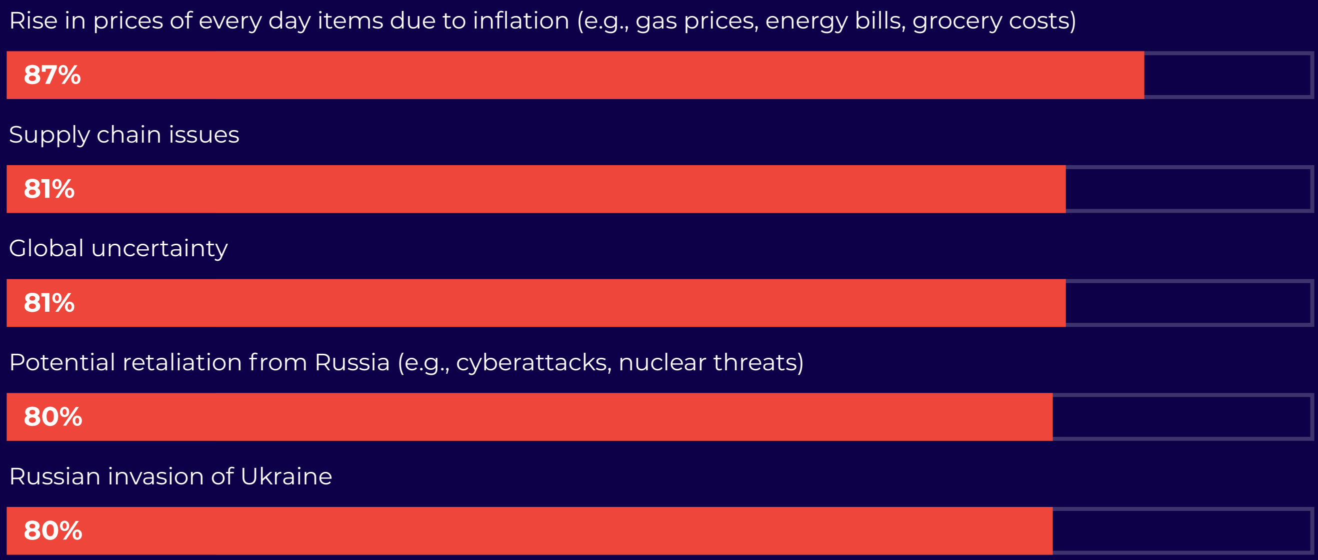
69%
said they are not confident that the Federal Reserve will be able to bring inflation down to its 2 percent goal within the next two years without inducing a recession[9]

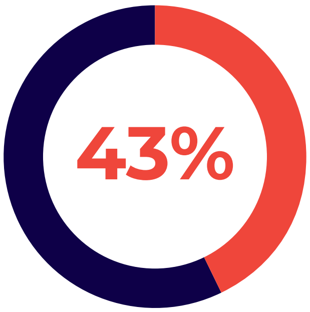
[9] National Association for Business Economics, National Policy Survey. March 2023.

Money-related worries are widespread among the U.S. populace: **Two-thirds of U.S. adults say money is a "significant source of stress,"** according to a survey by the American Psychological Association. And money-related stress is even higher among younger adults ages 18 to 43, registering at **82 percent** for individuals 18 to 25 and **81 percent** for those aged 26 to 43.[10]

High numbers report stress related to inflation, global uncertainty and invasion of Ukraine

Percent say is a significant source of stress





At the same time, consumers are practically begging their financial institutions for help, but many do not feel they are getting it. Consumers generally trust banks to protect their data and process their transactions, but **only 43 percent trust them to help look after their long-term financial well-being**, according to an Accenture survey.[11]

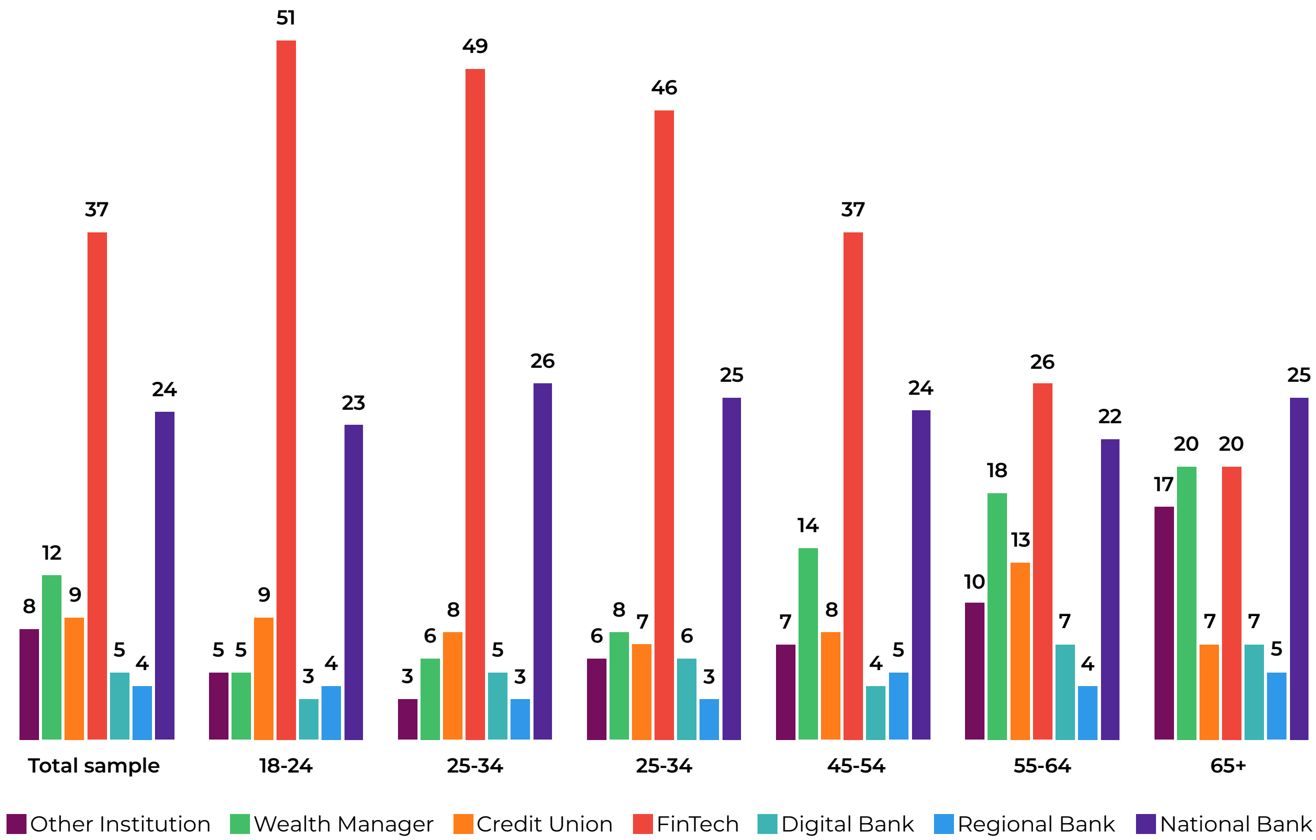
"Many consumers doubt that banks have their best interests at heart," Accenture said. The firm has urged banks to shift their focus to "purpose-driven banking," which it describes as "an authentic, transparent effort to help customers manage their finances more wisely and effectively, even if it means offering advice that may not immediately make money for the bank."[12]

[10] "Stress in America," Infographic. American Psychological Association, March 2022.
[11] Alan McIntryre, "Banks, Do Right by Customers to Increase Trust." Accenture Banking Blog, July 2020.
[12] Julian Skan et al., "Purpose-Driven Banking: Win Customer Trust." Accenture, March 10, 2020.

Which financial providers consumers choose to trust is another challenge. An Ernst & Young survey of more than 5,000 consumers found that **more people cited a fintech as their most trusted financial brand**, as opposed to a traditional financial institution. This figure was highest among younger consumers, ages 18 to 24.[13]

Most trusted financial brands by age group

Percentage of respondents who trust each company type most in financial services



Source: How financial institutions can win the battle for trust | EY-US, June 2021

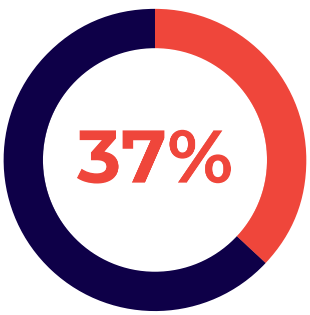
However, banks and credit unions that can help their consumers manage their finances better will **earn their trust and create more profitable consumers**.

FICO executives in a 2022 roundtable noted that banks possess vast amounts of undistilled data about their consumers but generally aren't doing a great job harnessing it. Banks that can tap this data can "make their customer's financial wellness journey a centerpiece of their marketing and product strategy," said Glenn Grossman, who was then a FICO Principal Consultant.

[13] Nikhil Lele and Rob Mannamkery, "How Financial Institutions Can Win the Battle of Trust." Ernst & Young, June 2021.

> “There is a revenue stream when it’s executed well. Savings goals can sometimes lead to borrowing events. Furthermore, increase retention and loyalty. We all know the cost to retain customers is much lower than the cost to acquire.”
>
> **– Glenn Grossman** Former FICO Principal Consultant[14]

FICO continued in a blog post: “The path to financial security (and ultimately, financial freedom) requires more than providing people with access to tools and information. There’s an underlying psychology driving all our choices and behaviors, which should be acknowledged and combined with the power of modern scoring and decisioning technology. If you want to increase customer satisfaction, retention and loyalty, show them you care and take actions that improve their lives.”



Reinforcing this point is that retail banking consumers who are “fully engaged” bring **37 percent more annual revenue** to their primary bank than “actively disengaged” consumers, according to frequently cited data from Gallup.[15]

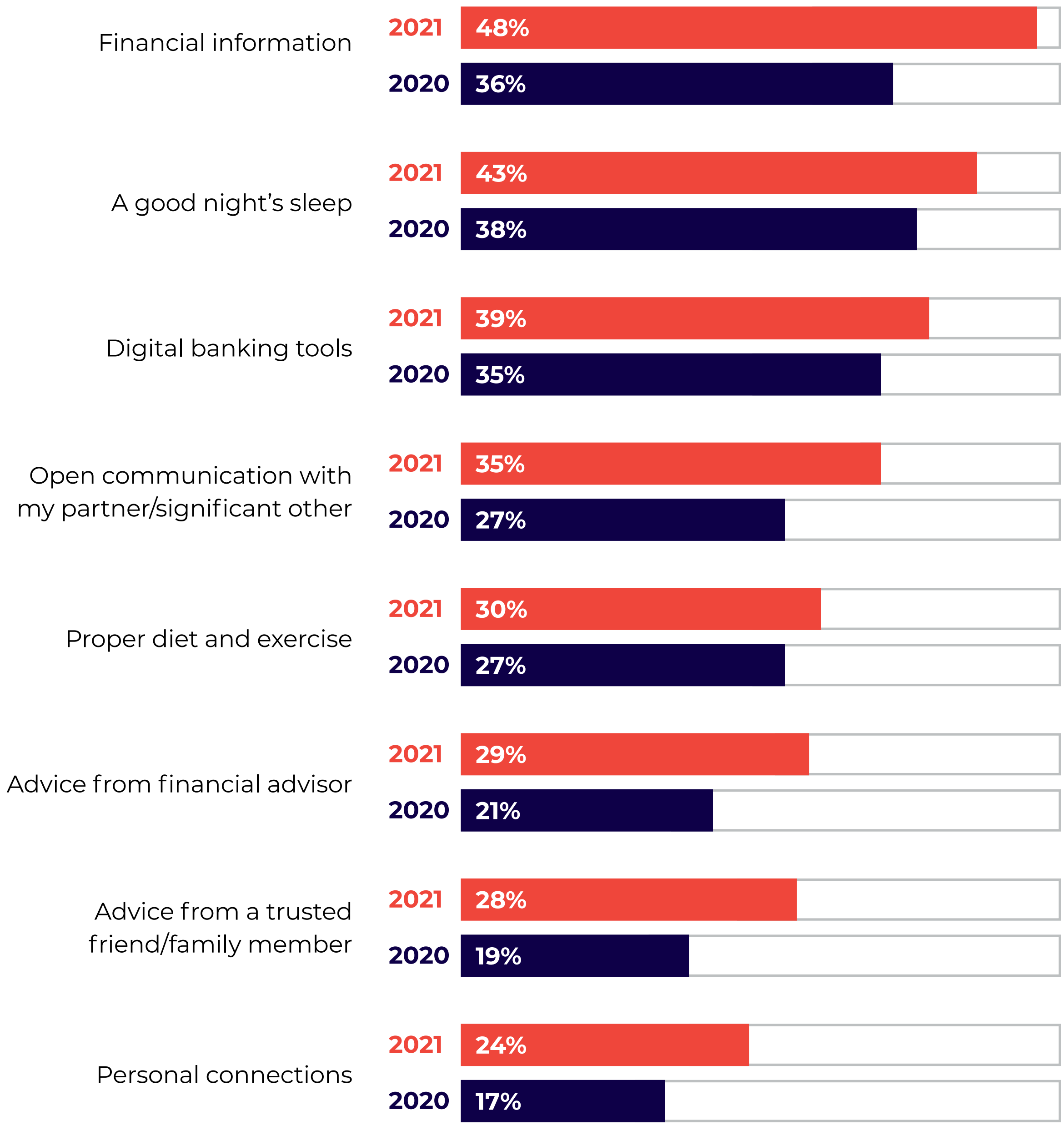
> “Customer engagement goes far beyond fulfilling transactional needs, delivering services as expected, or creating satisfaction. Customers want to be assured their bank knows them, understands them and is looking out for their financial wellbeing.”
>
> **– Jim Marous** Industry Expert

The biggest factor in making consumers feel financially comfortable is receiving financial information and advice, according to KeyBank’s 2022 Financial Mobility Survey.[16]

“Banks and credit unions can expand customer experience from being essentially good customer service and a good banking app by becoming a **partner in new life priorities**,” The Financial Brand noted.

[14] “Financial Wellness: How Banks Can Help Their Customers.” FICO, August 2022.
[15] Jim Marous, “BBVA Sees Strong Results from Focus on Financial Wellness.” The Financial Brand, January 18, 2022.
[16] Craig Guillot, “The New Role Financial Wellness Plays in Banks’ CX Strategies.” The Financial Brand, May 13, 2022.

What makes consumers feel financially resilient



Source: KeyBank, May 2022

Ultimately, consumers that feel like they receive financial help or advice from their bank or credit union are more profitable and loyal to the financial institution.

"Providing financial wellness services for your customers could have a positive impact on your business and your bottom line. When your customers show loyalty to your business, feel less stress and maintain good habits, they may be more likely to continue doing business with you and potentially refer your products and services to friends and family," Experian noted.[17]

[17] Colleen Bucsko, "3 Ways Financial Wellness Services Can Empower Your Customers and Drive your Business." Experian, December 20, 2022.

How Financial Institutions Can Help Consumers

So, it's clear that banks and credit unions should strive to enable their consumers' financial wellness. But how should they go about this?

There are several innovative ways that financial institutions can proceed. One way is to take advantage of all the data they have on consumers to create more personalized products.

Larry Rosenberger, a former FICO CEO who is now a research fellow with the company, noted that banks and credit unions could use "more personalized data, using SMS for one-on-one dialogue with individual customers. **Given the provider's existing data and this new data, there's an opportunity for financial services providers to use it as input for better predictions and better actions for their customers**. With better predictions and personalized associated 'nudges' provided to customers over time, customers will have the opportunity to adjust their behavior by themselves and make smarter choices with their money. You can think about this as 'hyper-personalized financial literacy' or personalized financial health benchmarks."[18]

Banks and credit unions can also use data to help nudge their consumers in the right financial direction.

[18] "Financial Wellness: How Banks Can Help Their Customers." FICO, August 2022.

Through AI-driven interventions, personalized prompts, and micro-level targeting, financial institutions can ensure consumers take the steps needed to embrace their financial destiny.[19]

Predictive Technology

Royal Bank of Canada created NOMI, a virtual assistant designed to give consumers insights and help them improve and maintain their financial health. It offers consumers **financial insights gleaned from that person's data and activity**.[20] Using predictive technology to stash away money that consumers are unlikely to miss, **NOMI has helped consumers save an average of $358 a month**, RBC said.[21]

Some of NOMI's features include:

- A **"second look"** — for example, asking a consumer if they might have been double-charged
- Flagging **changes in spending patterns** or gently asking, "Did you know you spent such and such amount on coffee last week?"
- Providing a **spending summary** upon completion of a trip
- A **budgeting function**, which calculates how much a person is spending on dining, entertainment, transportation, and shopping—the four categories most consumers consider discretionary—and then offering budgeting suggestions and tracking how they are doing in meeting those budgets.

[19] Andrew Warren, "Personal Financial Wellness: A Banking Opportunity and Imperative." Forbes, November 16, 2021.
[20] Bill Streeter, "Why Everyone is Loving RBC's NOMI Digital Banking Assistant." The Financial Brand, July 14, 2020.
[21] "Bah, Humbug? Not in Canada, as Consumers Reach New High in Holiday Season Spending: RBC Poll." RBC Newsroom, February 1, 2021.

SAFE Credit Union, a Franklin Madison client

SAFE Credit Union, based in Folsom, Calif., engages in several initiatives to help its members achieve financial wellness, said Tiffani Vargas, SAFE's Chief Lending Officer.

"SAFE offers robust financial education and reaches thousands of members, students, and employees each year through our webinars, community events, and workshops," Vargas said. "We support legislative efforts to require financial literacy courses as part of California's K-12 curriculum. Our employees take a consultative approach when speaking with members to better understand their unique circumstances when providing them with information on available products and services, including loan protection insurance products."

How Insurance Can Promote Financial Wellness

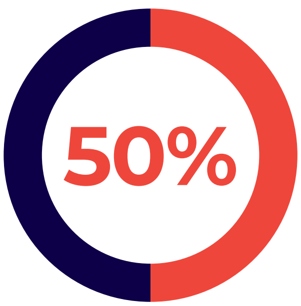
One of the largest untapped areas where financial institutions can use data to facilitate financial wellness for their consumers is by offering insurance products — specifically, using data to offer the right product to the right person at the right time. This can include offering complimentary insurance, like AD&D, or other relevant insurance products at a reasonable price that can ultimately help consumers save some cash.

These products can help put a few hundred dollars back into a consumer's pocket after an approved claim, which can be a significant benefit during these inflationary times. They also don't require any investment from the financial institution and are complimentary for the consumer unless they elect to purchase a higher amount of insurance coverage. It is an easy and relevant way to provide value and engender loyalty.

For consumers who want or need additional financial wellness and peace of mind, insurance can help make them more stable during times of emergencies, and financial institutions can be the ones to offer this to them, thus creating consumer trust and loyalty.

In fact, offering complimentary insurance deepens relationships and can drive revenue, according to The Financial Brand.[22]

> “A relative handful of banks and credit unions have shown that the two lines of business [banking and insurance] can not only coexist but be a significant contributor to non-interest income. They may be onto something.”
>
> **– Bill Streeter** The Financial Brand[22]



For example, The Financial Brand cited Evans Bank, based in upstate New York, which has a sizeable insurance business that has helped strengthen consumer relationships. Insurance premiums account for well over **50 percent** of the bank’s **non-interest income**.

“We have a big, dominant market share in our markets,” added Brad Rust, the Chief Financial Officer at German American Bank, located in Jasper, Indiana, as quoted by The Financial Brand. “Insurance provides another service beyond banking we can provide customers — it gives us more wallet share. That’s why we’ve been selling insurance since 1999.”[23]

McKinsey also noted that nonlife insurance and stand-alone sales are gaining relevance with banks, aiming to capture a broad share of consumers’ wallets.[24]

“We believe there is no reason why the banking customer should get their insurance from somewhere else,” said Guillaume Oreckin, the former Chief Experience Officer at BBVA, who was interviewed in 2021 by McKinsey. “This is a radical change. Previously, the idea was to define a penetration rate, and now the ambition is to move from one-off sales to capturing the full share of wallet and to say, “**How can we show to every customer who is already banking with us that we are also the right partner to address their insurance needs?**”

[22] Bill Streeter, “Three Banking Providers Rocking the Insurance Cross Sell.” The Financial Brand, September 20, 2018.
[23] Bill Streeter, “Three Banking Providers Rocking the Insurance Cross Sell.” The Financial Brand, September 20, 2018.
[24] “CXO Perspectives: A Conversation on the Future of Bancassurance.” McKinsey, April 15, 2021.

SAFE Credit Union also offers insurance products to help its members with financial wellness.

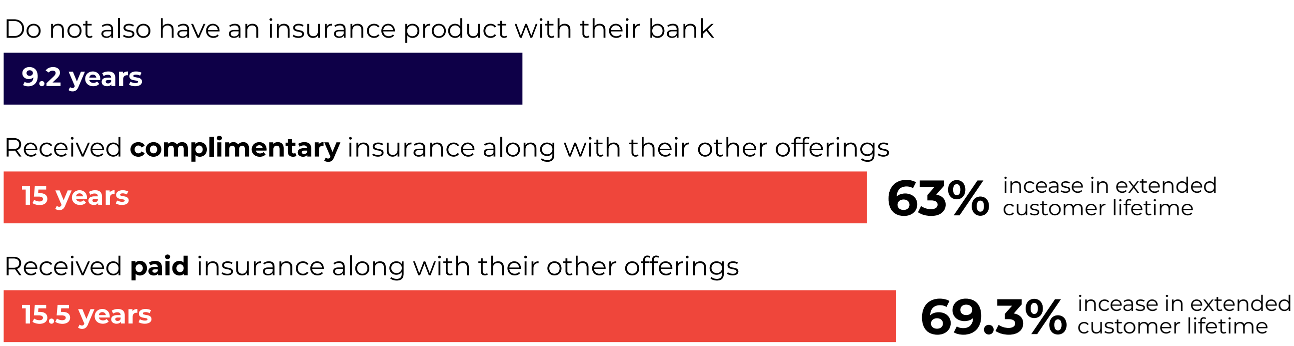
“In these challenging economic times, many Americans live paycheck to paycheck and with limited savings,” Vargas explained. “SAFE is committed to offering supplemental insurance that provides peace of mind and has a positive impact in the event of disability, unemployment and other unexpected occurrences.”

Recognizing and playing to your strengths can sharpen consumer insights. For example, auto lending is a strong discipline among many credit unions and community banks. “Vehicle loan protection products that cover mechanical breakdown or total loss are more advantageous than ever, given the high cost of repairs and auto prices,” Vargas said. “Hospitalization and recuperative care programs are also of great interest to some members who in response to Covid-19 recognize that unplanned illness can cause great financial hardship.”

The need for insurance for financial wellness and stability spreads across all generations. Vargas added that even members in their 30s and 40s are becoming more interested in buying insurance products.

This trend can be extremely beneficial to financial institutions because consumers that have insurance products with their financial institution also have a significantly higher lifetime value than those that are being offered basic products and services. Younger consumers who buy insurance products from their bank or credit union can then **provide decades of tenure and client value.**

Consumer’s average lifetime tenure with their bank[25]



By retaining consumers for 63% longer, revenue increases for the company without having to spend the additional amount to attract new consumers.

[22] Bill Streeter, “Three Banking Providers Rocking the Insurance Cross Sell.” The Financial Brand, September 20, 2018.
[23] Bill Streeter, “Three Banking Providers Rocking the Insurance Cross Sell.” The Financial Brand, September 20, 2018.
[24] “CXO Perspectives: A Conversation on the Future of Bancassurance.” McKinsey, April 15, 2021.
[25] “Dance with the One Who Brought You.” Franklin Madison, November 30, 2022.

Banks and credit unions can also collect a portion of the fee consumers pay for an insurance product — akin to a commission — which is revenue that can replace some lost fee income. This is essentially an **extra passive revenue stream** for banks and credit unions; they earn this by doing nothing.

Furthermore, insurance products appeal to the bulk of a financial institution's consumer base, as opposed to wealth management products, which are only marketed to a small sliver of high-net-worth clients.

A third-party partner can also help a bank or credit union with other competencies around selling insurance that they don't have, such as regulatory knowledge. Insurance is regulated differently in every state and there are **different rules for each state**, said Andrea Heger, Senior Vice President for Insurance Services at Franklin Madison, and a former bank executive.

"You need a partner that has that expertise who knows what the rules are in Montana versus Wyoming," she added.

Another reason financial institutions should use a partner to offer insurance services is the ability to connect with the right carriers offering the best products for their consumer base.

> "There are so many insurance carriers and products that are available in the market that it can be overwhelming if you are not familiar with the insurance market, and what each one offers and what they are good at and what they are not good at."
>
> **– Andrea Heger** Senior Vice President for Insurance Services at Franklin Madison

Using Data and Analytics to Market Personalized Insurance Offerings

However, earning consumer loyalty takes more than just offering insurance. As noted above, banks and credit unions need to make the right offer to the right person. Offering timely pet insurance to a dog owner may help that person save a couple hundred dollars during a visit to the vet. But offering the same product to someone that does not have a pet is a waste of time and will likely annoy that consumer.

To be most effective, banks and credit unions need robust digital marketing and analytics tools to ensure the offers are personalized and relevant to each consumer. Such an approach employs effective, personalized, data-driven leads across all channels, including the branch network and digital and remote channels. The ultimate aim is for financial institutions to reach the right consumers at the right moments with the right offers.

Many institutions, especially smaller ones, may lack the in-house resources to do this effectively. But that's ok. There are third parties — such as Franklin Madison — that can **help market these products on behalf of the bank and use sophisticated analytics to mine the bank's own data, and combine it with their own proprietary data, to deliver highly personalized and relevant marketing messages**.

Conclusion

The competitive pressure on banks and credit unions to capture a share of the consumer dollar is intense and growing relentlessly. Most consumers today do not have one banking relationship, but rather an array of fragmented relationships among different providers. By easing consumers' minds regarding their finances and providing them with a way to manage difficult economic times, banks and credit unions can gain more loyal and profitable consumers.

Financial institutions possess vast quantities of consumer data, but sifting through this information to assemble a customized picture of what individual consumers need and what will resonate with them takes a commitment of time, resources, and expertise.

Institutions such as SAFE Credit Union have found insurance offerings to be a key ingredient to the overall recipe for helping build financial freedom for clients and a promising source of fee revenue for financial institutions.

"As we focus on helping people, taking a consultative approach to meeting their unique needs at each stage in their financial journey, we must have various products available to fill those needs," said Vargas. "The trust our members have in SAFE Credit Union as a full-service financial institution is evident through the longevity of membership and repeat interest in our deposit, loan, and insurance products."

Helping your consumers develop their financial well-being doesn't have to involve an investment or a heavy lift from your staff. Our Smarter Insurance Marketing approach delivers value for both you and consumers, delivering products that drive consumer loyalty and an increase in non-interest income.

See how it works by contacting Andrea Heger at **aheger@franklin-madison.com**
Or learn more at **www.franklin-madison.com**

About

An industry pioneer with over 50 years of experience, Franklin Madison builds financial security for individuals and families by delivering industry-leading insurance products and marketing services through our brand partners. **We help generate increased loyalty and incremental revenue for more than 3,500 financial institutions.**

Franklin Madison's sister company, FM Engage, is a direct marketing agency that inspires and engages insurance customers in bold new ways that drive real results. Based in Franklin, Tennessee, Franklin Madison has approximately 200 employees.

For more information, visit **franklin-madison.com**

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