



Personal Finance Management: Five Things FIs Need to Do in 2011

Conducted by
Javelin Strategy & Research
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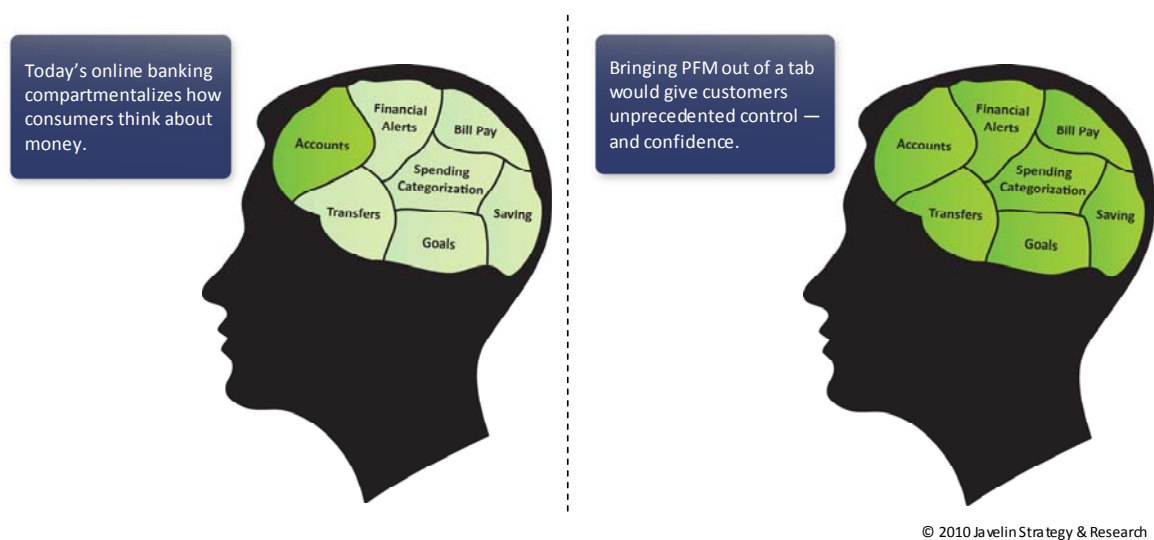
Why FIs Face an Urgent Need to Install PFM at the Heart of Online Banking in 2011

The prolonged economic downturn has led scores of consumers to get a tighter grip on their finances by reining in spending and shying away from “pay-later” credit cards in favor of “pay-now” options such as cash, checks and debit cards. Alarming, though, millions of anxious consumers are monitoring their finances less rather than more. About 19% of consumers surveyed in August said they do not monitor or manage their personal finances — a figure that more doubled from 8% in 2009.¹ In addition, the decline in the percentage of consumers who sometimes manage their finances by logging in at their bank or credit union websites to check account balances was steep (46%, down from 59%). Such behavior reflects a natural reaction when people feel that they are not in control. Many avert their eyes and hope problems will simply go away.

This behavior is a matter of concern for both public policy and banking opportunity. As a nation, the United States has struggled to address financial illiteracy that makes Americans prone to mistakes and missteps that shackle them economically. The nation and the banking industry benefit mutually when Americans are in a position to move up the economic ladder, borrow responsibly, fuel an economy dependent on consumer spending, save for college, invest in national growth and retire independently. The challenge facing the financial services industry is to develop online and mobile tools that can bolster the consumer’s confidence and sense of financial control.

PFM Tools on the Home Page Can Rewire How Customers Think About Their Money

Figure 1: Online Banking Currently Focuses on Accounts, Tucks Away PFM in a Tab



¹ Personal Finance Management (Part 1): What Consumers Really Want from PFM, Javelin Strategy & Research, November 2010.

Why FIs Face an Urgent Need to Install PFM at the Heart of Online Banking in 2011

By weaving personal finance management (PFM) tools into the heart of online banking — right from the login — financial institutions (FIs) have an opportunity not only to remodel online banking but also to reframe how customers think about their money. Today, online banking is focused on accounts and balances, encouraging a compartmentalized way to think about money. (See Figure 1 on previous page.)

But 2011 marks the dawn of a new era in online banking — one that brings PFM insights, bill pay, funds transfers and elements of financial planning to the home page, enabling customers to easily monitor a more complete financial picture and to perform more money management chores expeditiously. FIs that deliver that experience will give customers a convenient place to think about their overall financial lives, not just a few specific accounts, and put FIs in command as their primary financial institution.

Efforts to upgrade PFM are timely because online banking and bill pay are at a crossroads; growth in the number of households that bank online, weekly usage and overall adoption of bill pay leveled off in 2010.² That's worrisome because regulations such as the Dodd-Frank Act and Reg E threaten traditional banking revenues and heighten the need to boost the use of online banking and bill pay. Javelin estimates the banking industry can gain nearly \$8.3 billion in operational savings by wooing customers to act more often through online-banking channels.

PFM from the login can reinvigorate online banking and heighten awareness of bill pay, especially at regional and community banks, which typically lag far behind larger banks and credit unions in bill-pay usage. It also can contribute substantial, long-lasting returns in the form of customer acquisition and loyalty, fraud prevention, paper suppression, cross-selling and building the foundation for mobile banking.

The challenge facing the financial services industry is to develop online and mobile tools that can bolster the consumer's confidence and sense of financial control.

Banks and credit unions can redefine online banking and empower American consumers with an unprecedented sense of financial control by serving up PFM tools in 2011 that build on a foundation of five core principles :

- **Spotlight PFM right from the login.** In 2011 and beyond, home pages will showcase what customers can both “view” and “do,” enabling them to manage their money more smartly and tackle common banking chores like paying bills.

² 2010 Online Banking and Bill Payment Forecast: How to Cut \$8.3 Billion in Costs Through Channel Conversion, Javelin Strategy & Research, October 2010.

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- **Consolidate all of a customer's accounts.** Consumers will derive additional value from PFM products that enable them to see, analyze and allocate all their financial accounts, even those held at rival institutions.
- **Serve up real-time data.** Consumers will feel empowered by financial institutions that provide them with an up-to-the-minute overview of their financial status.
- **Automatically categorize spending data.** The best PFM tools will provide consumers with life-changing insights into how they spend their money, where they can cut back and how they can save more. At the same time, they will require little, if any, initial setup by consumers.
- **Exploit the power of PFM on mobile devices.** Top FIs and technology vendors will extend the power of PFM data to smartphones and other mobile devices, providing the ultimate in an always-on, real-time financial "remote control."

What Consumers Want and Need from PFM

Consumers today have far more choice and complexity in their financial lives than previous generations did. Although the typical American's finances once centered on a checking account, consumers today commonly oversee accounts for checking, savings, credit, debit, personal loans, rewards programs and more. Ironically, the added convenience of monitoring and managing finances through multiple channels — branches, ATMs, call centers, interactive voice recognition (IVR), online and now mobile — actually has also added complexity that can vex or overwhelm some consumers.

This complexity creates the need for PFM tools that invite customers to focus their interactions and transactions through the cost-effective online channel by rounding up all these accounts and transaction chores into a simple, intuitive user experience. Consumers will grow frustrated and impatient with banking sites that force them to ferret through separate tabs dedicated to account balances, bill pay, transfers, financial alerts and other components. Financial institutions that fail to serve up the big-picture view will risk losing their grip on a segment of consumers who will turn to compelling outside PFM “portals.”

Making it simpler to manage money is of heightened importance for the half of U.S. households that maintain accounts at more than one financial institution. Moreover, 75% of consumers with a credit card say it comes from an FI other than their primary bank or credit union. These consumers need PFM products that gather account information regardless of whether the account is held at the host financial institution or at a rival FI. Without that capability, customers will be presented with an incomplete — and arguably useless — picture of their finances if they conduct most of their day-to-day spending through a checking account at one FI but funnel discretionary spending through a rival's credit card.

Customers who hold accounts at multiple FIs are attractive because they are significantly more likely than consumers who bank with a single FI to have annual incomes of \$50,000 or more (54% vs. 30%) and to open financial accounts and buy multiple banking products such as checking and savings accounts as well as mortgages and auto loans. They also are more likely to bank online at least quarterly (85% vs. 67%).

To develop a more detailed understanding of what consumers want in the way of PFM tools, Javelin studied the following four types of money managers, named for the methods they use to monitor and manage their finances:³

- **Paper-and-pen managers**, who manage their finances by hand using paper and pen.
- **Online balance-checkers**, who manage their finances in part by logging onto a bank or credit union website to monitor account balances and make transactions.
- **Desktop-PFM users**, who manage their finances using personal finance software such as Quicken or spreadsheet programs such as Excel that they maintain at home rather than in the “cloud.”

³ These segments overlap because some consumers employ more than one method for managing their finances.

What Consumers Want and Need from PFM

- **Web-PFM users**, who manage their finances using online PFM tools available through a financial institution or through a website such as Mint.

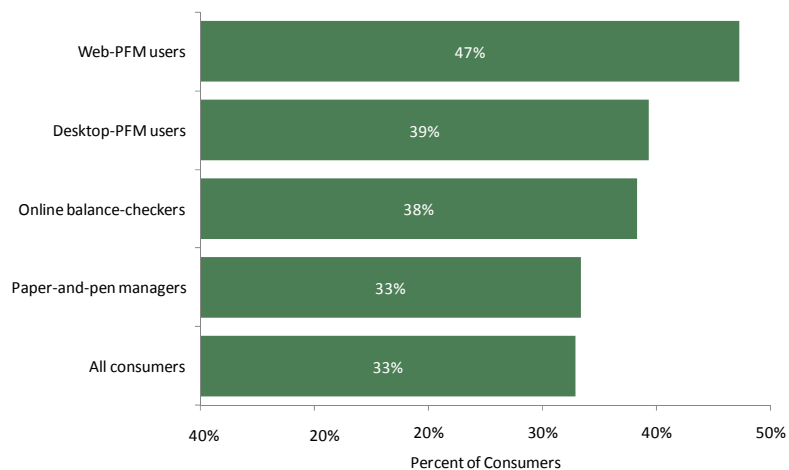
One trait these four types of money managers — and consumers in general — have in common is that they place a high value on having an all-in-one-place view of their finances. When they were asked what they would appreciate most if their bank offered such a capability, the top five features:

- **A consolidated financial snapshot of balances and transactions (55%).** This feature is even more valuable to online balance-checkers (64%).
- **Up-to-the-minute account balances (45%).** Once again, online balance-checkers show a bigger appreciation for real-time data (52% vs. 45% of consumers overall).
- **Categorized spending insights (25%).**
- **Help identifying excess spending and managing debt (17%).**
- **Help preparing tax filings (15%).**

PFM tools that serve up account balances across FIs can be powerful for building loyalty. About 47% of Web-PFM users say their availability would have a strong/very strong effect on their willingness to remain a customer. (See Figure 2.) That is three times the number who say the tools would be a weak/very weak retention feature (16%). The retention value is lowest among paper-and-pen money managers (33%). This finding underscores Javelin's prediction that the steady use of the online channel is likely to raise consumers' expectations and boost their desire to easily access a consolidated, real-time overview of their finances.

Nearly Half of Web-PFM Users Say a Consolidated View of Accounts Would Boost Loyalty

Figure 2: Consumers' Likelihood of Remaining a Customer If Banks Consolidate Account Information by Type of Money Manager



Q24: Please indicate the extent to which you agree or disagree, on 1 to 5 scale, let 1 represent "do not agree at all" and let 5 represent "agree completely." I am much more likely to remain a customer of my primary bank if it offers me the ability to analyze my spending, bills and finances on the bank's website or to view all my financial accounts across multiple institutions consolidated into the bank's online banking:

August 2010, n=1,859, 896, 913, 425, 174
 Base: All consumers who use personal financial management.
 © 2010 Javelin Strategy & Research

FI's Have an Important Trust Advantage — for Now

The financial services industry is contentiously divided over the question of how far consumers are willing to go to see all their account information in one place. One camp maintains that consumers will provide log-in credentials to develop a complete view of their finances. The other camp believes reluctance to provide credentials is such a significant hurdle that FIs will receive little return on their investment in aggregation services and therefore are wise, at least initially, to offer data only for accounts held at the host FI.

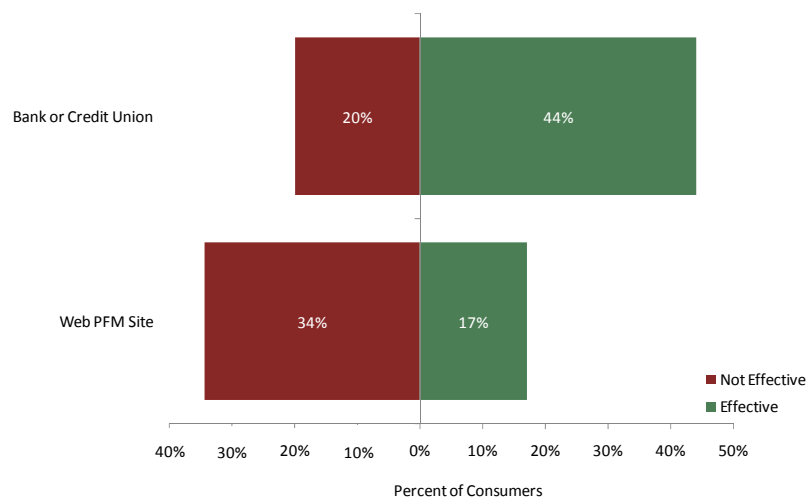
Consumers generally remain wary of providing login credentials, but Javelin predicts they will overcome such caution as PFM tools become more prevalent and the value of a 360-degree financial snapshot becomes more evident.

For now, banks and credit unions enjoy one critical advantage over consumer PFM portals: trust. By more than a two-to-one margin, consumers say they consider banks and credit unions to be safer than PFM websites for safeguarding login credentials that are used to aggregate account information from multiple financial institutions. All told, 44% of consumers say banks and credit unions do an effective/very effective job of protecting such private data, double the 17% rate for PFM websites. (See Figure 3.)

This sense of trust is an advantage that banks and credit unions could squander, however, if they fail to upgrade their PFM offerings and customers feel compelled to experiment with other PFM sites.

Banks, Credit Unions Maintain a Two-to-One Trust Advantage over PFM Websites

Figure 3: Consumers' Perceived Ability of FI and PFM Websites to Protect Login and Password Information



Q25: How would you rate the effectiveness of each of the following in protecting your login or password information?

August 2010, n= 1,995
Base: All consumers
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The 10-Point Business Case for PFM

In 2009, Javelin mapped out a model for the future of interactive finance known as the Customer-Driven Architecture.⁴ This model, supported by years of customer research and behavioral observation, is founded on the idea that financial institutions will profit by sharing financial control with their customers.

Personal finance management tools serve as a prime example of such sharing. Although they enable consumers to gain greater control over their money, banks and credit unions stand to reap 10 tangible benefits:

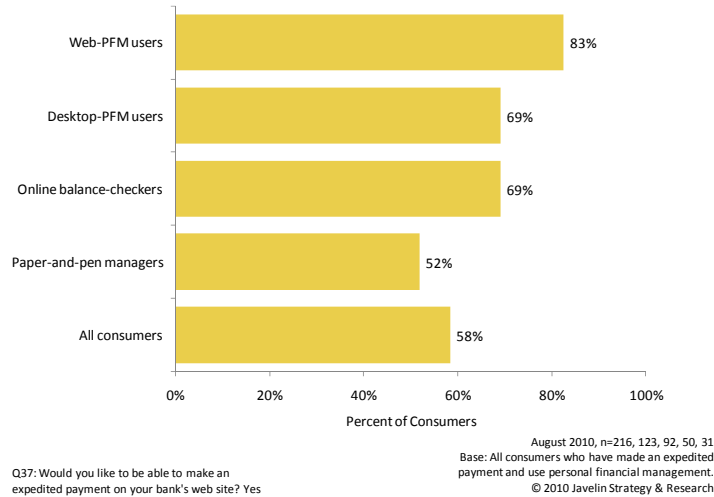
- **Customer acquisition.** PFM tools incorporated at the heart of online banking will redefine consumers' online-banking experience and set a financial institution apart from its rivals.
- **Lower operating costs.** Javelin estimates that financial institutions could reduce operating costs by \$8.3 billion by jump-starting online banking and bill-pay capabilities with improved PFM tools and other upgrades.
- **Paper reduction.** Fostering the role of electronic money management will erode consumers' reliance on paper statements and documents and augment efforts to cut operating costs.
- **Retention.** PFM tools create a "sticky" relationship between the consumer and the FI. They also counter the threat from third-party PFM offerings such as Mint that commoditize banking products and frame the selection of banks in terms of rates and fees rather than service.
- **Loyalty (and politics).** Customers who believe their financial institutions are allies that help them achieve goals will have little motivation to switch banks. Acting like a fiduciary by putting the customer's interests first has taken on new importance for FIs in this era of regulatory reform.
- **Fraud prevention.** Improved online and mobile PFM capabilities will enable customers to monitor more accounts more easily and more frequently, speeding detection of fraud and reducing fraud losses for the consumer and FI alike.
- **Deeper relationships.** Consumers who desire PFM tools are attractive targets for deepening customer relationships because of the number and type of accounts they hold and the way they monitor and pay bills. Javelin data indicates that consumers who use web-PFM tools from banks, credit unions or personal finance sites make prime candidates for credit-card issuers that seek to increase their interchange revenue, lower their portfolio risk and increase the proportion of higher-income customers among their depositors.
- **Revenue opportunities.** PFM users desire various revenue-generating services such as overdraft protection, expedited payments and ID protection services. FIs also could pocket revenues by offering rewards from merchants and other partners. For example, about 83% of web-PFM users say they would like to arrange expedited payments through their bank, markedly higher than the 58% of consumers overall. (See Figure 4.) About 53% of web-PFM users also say they are very likely/likely to sign up for overdraft protection, vs. 36% of consumers overall.

⁴The Customer-Driven Architecture: Interactive Financial Services Technology in the iPhone Era, Javelin Strategy & Research, June 2009.

The 10-Point Business Case for PFM

Web-PFM Users Are Hungry to Make Expedited Payments Through Their Bank, Credit Union

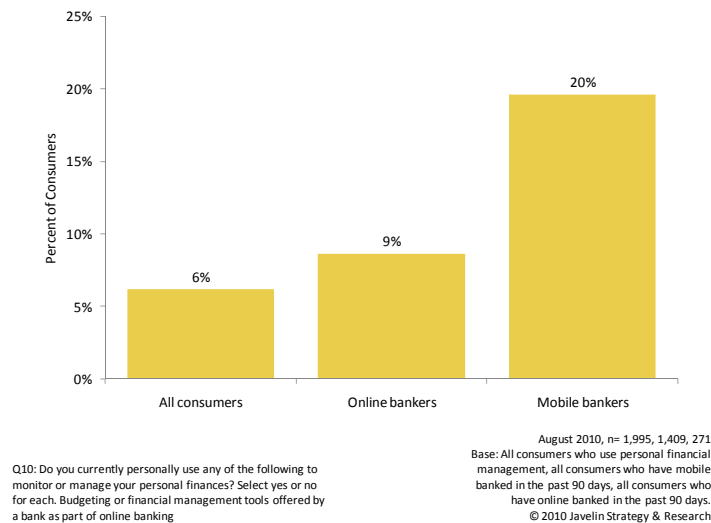
Figure 4: Consumers' Desire to Make Expedited Payments Through Their FI by Type of Money Manager



- **Cross-selling.** PFM tools will yield unprecedented amounts of account and transactional data that FIs can mine to direct relevant marketing offers to the right customers at the right time.
- **A foundation for mobile banking.** Financial alerts triggered by a rich vein of timely, personal information will introduce many consumers to the concept that a mobile device can serve as their financial “remote control.” Today, 20% of mobile-banking customers use PFM tools at their bank or credit union. That’s three times the rate for consumers overall (6%) and twice the rate even for online-banking customers (9%). (See Figure 5.)

Mobile-Banking Users Are Three Times as Likely as Consumers Overall to Use Bank-PFM Tools

Figure 5: Methods Used to Manage Money by Consumer Type




Vendor Analysis: Why Yodlee Is “Best in Class”

Of the nine online-banking products that Javelin compared in December 2010, plus Mint, Yodlee 10 from Yodlee stands out because it offers financial institutions the greatest ability to change the way consumers monitor and manage their money.⁵ This is the second consecutive year that Yodlee has ranked best in class in Javelin’s PFM comparisons. Overall, Yodlee offers the best opportunity to weave practical PFM into the home page and throughout online banking to consolidate data for accounts a customer holds at the host financial institution and at rival FIs. It also gives customers confidence that they are on a sound financial course.

A key part of Yodlee’s strategy is building out its FinApp Store, introduced in 2010. Yodlee develops financial-management applications that will enable FIs to remodel online banking using a widget architecture that makes PFM more actionable and integrates it thoroughly in banking and payments. The apps — which could be developed by Yodlee itself, its FI clients or independent and commercial software developers such as H&R Block — could be incorporated into the home page or within online banking. Under this concept, consumers can customize their banking experience by downloading free or paid applications from an application store housed at their FI’s website, potentially creating new revenues for FIs. FIs would have the ultimate say on which apps to stock at their individual app stores.

Yodlee Earns “Best-in-Class” Ranking for Second Consecutive Year

Figure 6: Yodlee’s Scores in Javelin’s Seven-Category Analysis

	Yodlee
Overall Score (weighted)	
Integration	★★★★
Appeal of Home Page	★★★★
Consolidation of Account Data	★★★★★
Ease of Use	★★★★★
Goal Fulfillment	★★★
Cross-Selling	★★★
Mobile	★★★

Javelin developed its ranking system of online-banking products by building on an analysis of consumer attitudes about PFM in the first installment of a two-part examination of PFM tools.⁶ Javelin ranked Mint and online-banking products from nine vendors⁷ based on the availability of scores of key features plus qualitative assessments in the seven weighted categories described below. Yodlee earned the top five-star ranking in two categories: consolidation of account data and ease of use.

⁵ 2010 Personal Financial Management Competitive Analysis (Part 2): How 10 Top PFM Vendors Are Redesigning Online Banking, Javelin Strategy & Research, December 2010.

⁶ Personal Finance Management (Part 1): What Consumers Really Want from PFM, Javelin Strategy & Research, November 2010.

⁷ The nine vendors are FIS, Fiserv, Geezeo, Intuit Financial Services, Jack Henry & Associates, Jwaala, Online Resources, Strands and Yodlee.

Vendor Analysis: Why Yodlee Is “Best in Class”

Integration into Online Banking (27% of Weighting of Javelin’s Score)

PFM has lived for too long in the obscurity of a tab. To revitalize online banking, FIs must feature PFM from the login and provide customers with a better way to oversee their finances while spotlighting bill pay and making it easier to perform everyday banking tasks. One key aspect of Yodlee’s approach is that it does not dictate the user interface to its clients, setting it apart from rivals such as Intuit Financial Services and Fiserv.

Appeal of the Home Page (15%)

PFM should have a look and feel that invites customers to think easily, more deeply and more frequently about their money. But PFM-based banking is more than aesthetics and pie charts; it also must centralize basic banking chores.

Consolidation of Account Data (18%)

Consumers yearn to monitor the accounts they hold at the host FI and at rival FIs. FIs that fail to enable them to do so risk serving up an incomplete and arguably useless financial snapshot.

Ease of Use (15%)

To satisfy a mass-market audience that is likely to be unfamiliar with PFM and be apprehensive about changes to online banking, PFM must offer immediate, effortless rewards such as automatic categorization of spending and plain-English transactional data. Yet it also should enable more determined PFM users to customize the experience.

Goal Fulfillment (7%)

The ultimate payoff of PFM tools is to enable customers to take greater control of their finances, save money and achieve their financial goals. Financial alerts and features that help customers spend and save more wisely play a key role.

Cross-Selling (15%)

PFM data will provide FIs with a deeper understanding of how and where their customers manage their finances, creating opportunities to cross-sell products and deepen relationships.

Mobile Pathway (4%)

Vendors that draw on customers’ account and transactional data to provide the right PFM tools at the right time could yield a killer app that accelerates the adoption of mobile banking and mobile payments. Javelin data indicates that the appetite for PFM tools is significant among mobile-banking customers, who are remarkably attentive to their finances.

Summary

A combination of consumer needs for financial control, improved technological capabilities and better-designed online-banking products are setting the stage for 2011 to be the year when innovative financial institutions take PFM tools out of the shadows of a tab and build them into the heart of online banking. Although PFM technology cannot make a customer's financial problems disappear, it can alleviate consumer anxiety and make these challenging financial times seem far more manageable. Providing the tools that instill confidence and control will put financial institutions in position to win in the marketplace.