First Data
beyond the transaction

A First Data White Paper

How Financial Institutions Can Build Customer Relationships for Long-Term Success

By First Data and Market Strategies International

MARKET STRATEGIES INTERNATIONAL

Introduction

The U.S. banking industry is at a critical juncture. Financial institutions are trying to regain the trust of consumers after the negative impacts of the subprime mortgage crisis, housing market collapse and credit crunch. At the same time, new regulations designed to protect consumers are making it more difficult for financial institutions to earn a profit.

In light of these challenges, cultivating strong customer relationships is more important than ever before. Strong relationships lead to loyalty, and loyal customers are more likely to use additional products and services and to refer new customers. Therefore, it's important to understand:

- How customers feel about their financial institutions.
- Whether financial institutions are effectively capturing share of wallet.
- Why customers select and defect from financial institutions.
- Whether financial institutions use the appropriate balance of "high touch" and "high tech" with their customers.

To address these issues, First Data and Market Strategies International recently conducted a joint online survey of 2,000 U.S. consumers. The "New Consumer and Financial Behavior" study assessed consumers' attitudes, behaviors, desires and technology adoption. This white paper, which focuses on customer relationships with their financial institutions, is the final in a series of four based on results of the study.

Topics include:

- Customer expectations of, and satisfaction with, their primary financial institution.
- Challenges in convincing customers to consolidate their financial portfolio with one institution.
- Reasons for customer churn.
- Customers' preferred communication channels.

About the Study

The "New Consumer and Financial Behavior" study was conducted jointly by First Data and Market Strategies International, a market research consultancy. During March 2011, 2,000 banked consumers (who have at least one account at a financial institution) completed an online survey of their attitudes, behaviors and expectations pertaining to their primary financial institution, as well as their adoption of related technology. All respondents were individual or household financial decision-makers recruited from the uSamp opt-in online panel of U.S. adults. For purposes of analysis, respondents were grouped into six consumer segments using a sophisticated and robust segmentation approach that combines demographics, attitudes, behaviors and values to create comprehensive, instructive consumer profiles. A full description of the research methodology is included on p. 9.

All Consumers Are Not Alike

The "New Consumer and Financial Behavior" study analyzed consumers' behaviors, beliefs and attitudes across six consumer segments as summarized below. While this paper focuses mainly on aggregate results, it contains some useful information about variances in behaviors and attitudes among different consumer groups.

Consumer segments	Overview
Fast Trackers	Young technology enthusiasts who make and spend money and are always online
Young Aspirationals	Younger consumers who are curious about technology, budget-conscious and need help saving money
Middle-of-the-Roaders	Traditional when it comes to using mobile technology, these consumers like to spend money despite moderate incomes
Value Seekers	Financially stable, older consumers who are motivated by rewards and frequently use credit cards
Simplifiers	Older, lower-income consumers with simple banking needs who are not that interested in new technology
Conventional Stalwarts	Older, traditionally-minded consumers who prefer to pay by cash and check, visit their bank often and are light users of technology

Note: See the white paper "Meeting the Needs of the New Financial Consumer" for more details on these consumer segments.

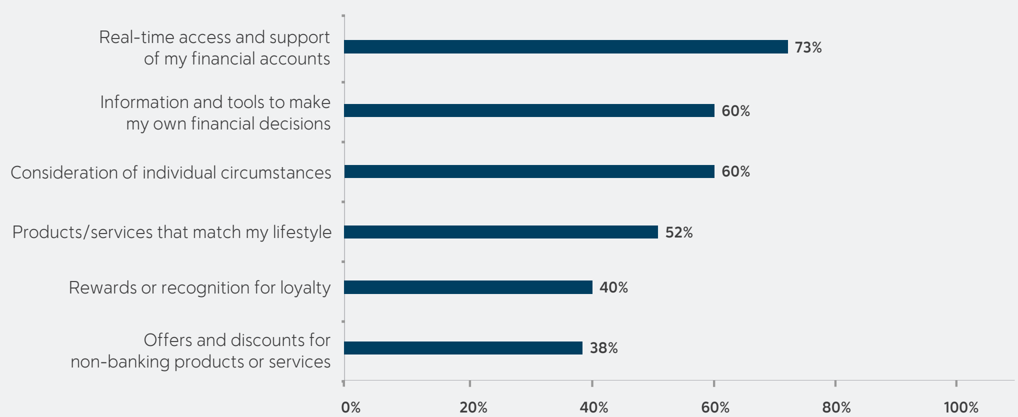
What Consumers Expect From Their Financial Institution

The first step in building solid customer relationships is to understand what consumers want and expect from their banking experience. The most common expectation, mentioned by 73 percent of consumers, is real-time access to and support of their financial accounts. Not surprisingly, meeting this expectation is far less important to Conventional Stalwarts, who are not in the habit of using technology for instantaneous access to information.

As shown in the following graph, it's also important for consumers to feel that they have the necessary tools and information to make sound financial decisions. And, consumers expect financial institutions to treat them as individuals by offering customized products and services that fit their unique lifestyles.

Forty percent of consumers expect rewards for customer loyalty, and nearly as many value notification of discounts for non-banking products and services. Both are more important to Fast Trackers and Young Aspirationals, two upwardly-mobile young consumer groups with the potential to become loyal, long-term customers.

CONSUMER EXPECTATIONS OF FINANCIAL INSTITUTIONS

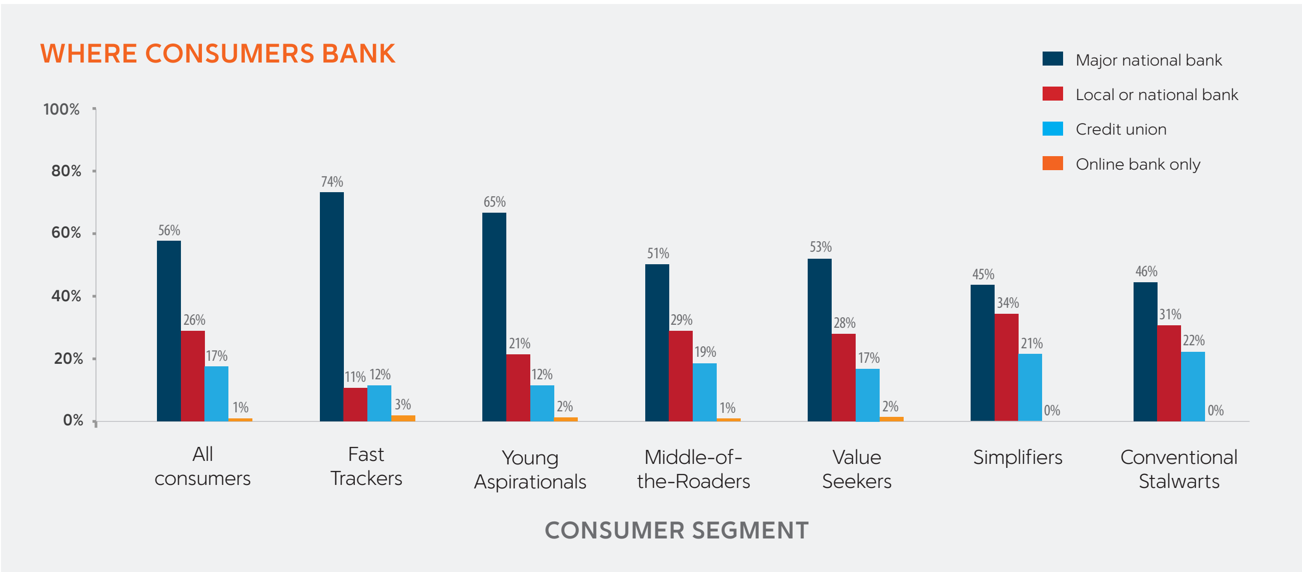


Overall, financial institutions appear to be doing an adequate job meeting the needs of their customers: 80 percent of consumers are highly satisfied. Simplifiers are the most satisfied customer segment with 89 percent reporting strong satisfaction. Of the six segments, this group has the simplest banking needs, which are easier to fulfill.

Major National Banks Most Popular

Major national banks are most widely used, followed by local/regional banks, then credit unions. More than half of consumers (56 percent) choose the convenience and widespread presence of a major national bank. As shown in the graph below, the younger Fast Trackers and Young Aspirationals are even more likely to use a major bank than the average consumer; the older Simplifiers and Conventional Stalwarts are less likely. Conversely, about one-third of Conventional Stalwarts use a local financial institution, compared with just 11 percent of Fast Trackers.

Just 17 percent of consumers are credit union members. Even among tech-savvy Fast Trackers, only 3 percent use a web-based bank as their main financial institution.



Why do consumers choose one financial institution over another? The top two reasons cited are:

- Trustworthiness (named by 80 percent).
- The perception that the bank is well-managed (76 percent).

Thirty percent of consumers would choose an institution based on the recommendation of a trusted acquaintance, highlighting the value of creating loyal customers who will act as brand advocates.

Credit Unions Have Highest Satisfaction

Even though credit unions are less widely used than national and local banks, they have the highest customer satisfaction: 92 percent of credit union customers are highly satisfied, compared to 84 percent for regional/local banks and 75 percent for national banks. The more personalized nature of the credit union membership experience may account for this higher satisfaction.

Financial Institutions Struggle to Be "One-Stop Shops"

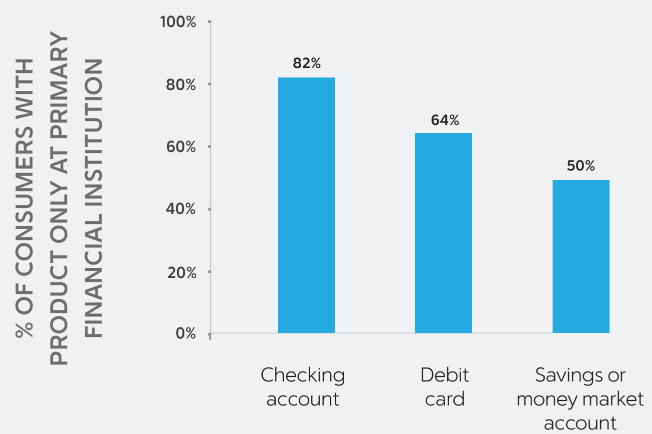
As financial institutions try to build better customer relationships, their ultimate goal is to increase share of wallet and, eventually, to be a customer's only banking relationship. But typically, that doesn't happen. It's rare for customers to have all of their financial products or services—from checking accounts to mortgages to personal loans to retirement plans—in one place. Even within a particular product category, like CDs, it's common for consumers to have accounts at multiple institutions. Financial institutions have an opportunity to improve in this area, although the challenge is to show consumers the value of consolidation.

The most popular lone product for consumers to have at their primary financial institution is their checking account, which is often a customer's initial banking product. Eighty-two percent of consumers with a checking account have just one, and it's at their primary bank. Closely tied to checking accounts are debit cards, which sixty-four percent of consumers have exclusively with their principal financial institutions. Half of consumers who have a savings account maintain one exclusively at their primary financial institution.

Other banking products are not so closely tied to a primary financial institution, either because they are promoted heavily elsewhere or because they are connected to a workplace, such as with a 401(k). Just 19 percent of consumers have a credit card only through their primary bank, and only 11 percent hold a mortgage exclusively with their main financial institution. Other products, including retirement accounts, personal loans and lines of credit, are more likely to be dispersed among various financial institutions; less than 10 percent of consumers who have these products hold them only at their primary bank.

Why don't consumers want to put all their financial "eggs in one basket?" The top reason, cited by about one-third of respondents, was that another institution gave them a better deal or rate. This finding points to the need for financial institutions to entice their best customers to consolidate by offering better rates and account terms. Two additional reasons were each given by about one-quarter of consumers: a preference to diversify and the fact that their primary institution didn't offer all of the needed products.

TOP PRODUCTS HELD EXCLUSIVELY AT PRIMARY FINANCIAL INSTITUTION



Note: Data shown reflects only customers who have a particular type of account and have it exclusively at their primary financial institution.

Some Customers Will Defect, Despite Potential Hassles

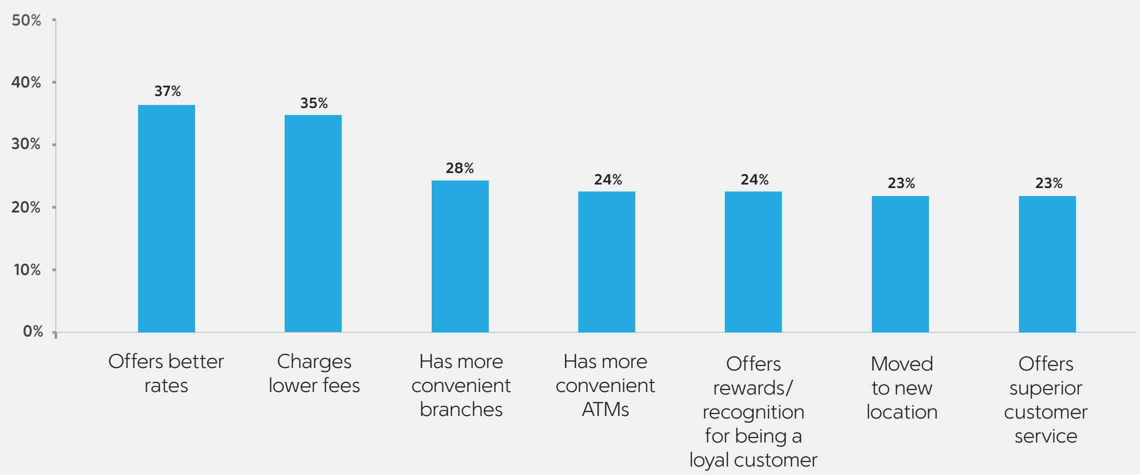
Essential to building stronger customer relationships is understanding why consumers switch financial institutions. Sixty-five percent of consumers feel that switching banks is either somewhat of a hassle or a huge hassle, although one in five made a change in the past five years. Financial institutions need to be aware that 41 percent of consumers said they would deal with this inconvenience if they knew their needs could be better served elsewhere.

So, why do some customers switch financial institutions? As shown below, the top two reasons are fiscally-related: 37 percent switch based on better rates elsewhere and 35 percent switch for lower fees. Next to rates and fees, convenience of branches and ATMs are top reasons for consumers to switch banks. Rewards/recognition and customer service are top reasons for switching for nearly one-quarter of consumers.

Fast Trackers Want It All

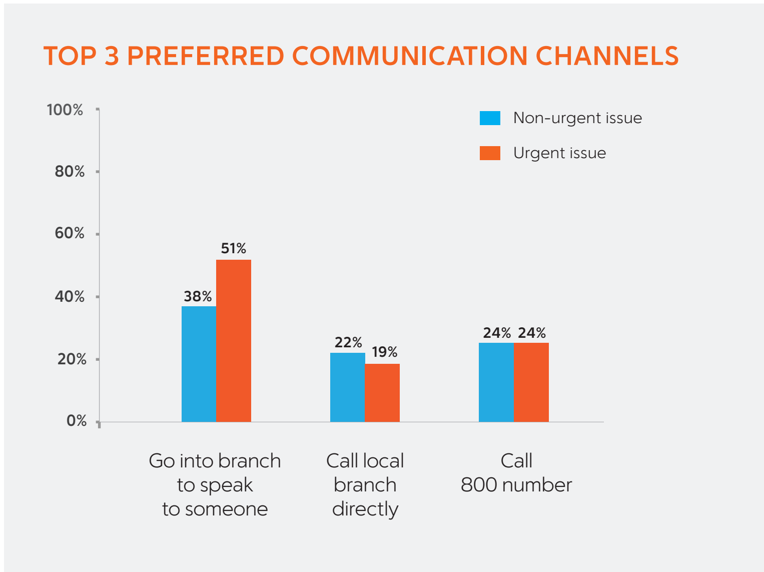
Fast Trackers are the most valuable "customer of tomorrow" for financial institutions. As compared to the average consumer, Fast Trackers are more likely to switch for all of the reasons shown in the chart below, except for moving. (For example, 41 percent of Fast Trackers cite convenient ATMs as a factor in switching, compared to just 24 percent of the general population). So, while it's intuitive that this valuable consumer segment would be more interested in technology, it's important for financial institutions to recognize that convenience of branches and ATMs, rewards and personalized customer service are also critical factors for Fast Trackers.

TOP REASONS FOR SWITCHING BANKS



Many Customers Still Prefer Traditional Communication Channels

As shown below, consumers still prefer to address both urgent and non-urgent issues with an in-person conversation at a branch or via phone. In fact, all customer segments except Fast Trackers prefer to go to a branch to speak to someone for both urgent and non-urgent issues; Fast Trackers prefer to use the toll-free number. This finding proves that branch and telephone service center personnel can play a valuable role in building and maintaining customer relationships.



When it comes to learning about new products and services, about three-fifths of consumers prefer an email from their financial institution. Approximately 40 percent of consumers each choose the institution's website and their account statement as preferred communication channels for new product notification. Fast Trackers and Young Aspirationals are significantly more likely than other consumer groups to appreciate a text message informing them of new products.

Implications for Financial Institutions

Building stronger customer relationships is a necessity for financial institutions to thrive, especially in today's tough economy. Study findings indicate that financial institutions should:

- **Strive to differentiate:** Many financial institutions are not effectively setting themselves apart from the competition. About 40 percent of consumers feel that the quality of financial institutions' products and services are about the same. This is reason for concern, especially as an equal number of consumers say they have only an average level of commitment to their financial institution. The most effective means for a financial institution to differentiate itself from the competition is to provide specific customer segments with what is most meaningful and important to them –whether it's rewards, technology or exemplary customer service.
- **Recognize the value of personal service:** Conventional wisdom holds that younger, more tech-savvy customers don't appreciate personal service. The study shows this isn't necessarily true. Like other customers, Fast Trackers often prefer non-electronic communication channels when they need help with an issue. Customer service is also among the top factors for switching financial institutions, even for younger and more tech-savvy customers. Accordingly, financial institutions should use their existing branch networks to their advantage to provide the customer service customers want and expect.
- **Use technology appropriately to build relationships:** While "high touch" customer service is important, high tech is also critical, especially for Generation Y and Millennial customers. Financial institutions can use technology, including mobile banking, mobile wallet, text messaging and email to build relationships with customers who value technology.

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About Market Strategies International

Market Strategies International is a market research consultancy with deep expertise in the communication, energy, financial services, healthcare and technology industries. We design and implement the most intelligent research and deliver meaningful results that help companies make business decisions with complete and total confidence. Founded in 1989, Market Strategies is the 17th largest research firm in the U.S. according to "Honomichl Top 50," published in the June 2010 issue of *Marketing News*. Visit marketstrategies.com for more information.

Study Methodology

Market Strategies interviewed a national sample of 2,000 consumers aged 18 and up between March 17 and March 24, 2011. Respondents were recruited from the uSamp opt-in online panel of U.S. adults and were interviewed online. The data were weighted by age, gender and household income to match the demographics of the U.S. banked population. Due to its opt-in nature, this online panel (like most others) does not yield a random probability sample of the target population. As such, it is not possible to compute a margin of error or to statistically quantify the accuracy of projections.

For more information, contact your First Data Representative or visit firstdata.com.