BAI RESEARCH

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The New Banking Consumer: *5 Core Segments and How to Reach Them*

BASED ON INSIGHTS FROM

BAI Research Study: The New Dynamics of Consumer Banking Relationships

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BAI is pleased to present findings and analysis on a recently completed in-depth consumer study, sponsored by Cognizant. Given the twin pressures of recent regulatory changes coupled with a lower rate environment, the research sought to answer the central question: How can financial institutions grow profitable customer relationships? *The New Dynamics of Consumer Banking Relationships* study addresses this core and topical issue.

Research analysis and pragmatic insights presented here will guide bank executives on ways in which they can capitalize on emerging trends and evolving demographic segments in order to capture market/wallet share and drive revenue growth. The study centered on three key factors:

- Consumer needs for products and services from financial institutions
- Perspectives on consumer segments and strategies to capture wallet share
- How consumers interact and engage with their primary financial institution

The study was conducted on a nationally representative sample of 3,200 U.S. consumer households, reflecting the U.S. Census demographics across age, gender and region. Responses were collected from consumers who: were the sole or joint decision-maker for financial goals in household, had any type of deposit, loan, or investment account with any type of financial institution, were between the ages of 21 and 74, and had a household income of at least $25,000. More information on the methodology is presented at the end of this report.

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EXECUTIVE SUMMARY

As financial institutions look at 2012 and beyond, they see a sluggish economic recovery and increased regulation slowing the pace of revenue growth and margin expansion. Operating and IT budgets will continue to tighten, and bankers will be challenged to do more with less. Meanwhile, consumer banking preferences and attitudes will continue to change based on technological advances, demographics and social factors.

Faced with this outlook, retail bank executives are seeking to drive revenue generation by growing share of wallet from existing customer relationships. While customer acquisition and loan origination are still important, greater emphasis is being placed on more accurately targeting current customer segments. The goal is to identify and capitalize on opportunities for revenue growth through cross sell and up sell. Meeting this priority requires a deep understanding of what customers need, want, expect and value in a financial institution.

The New Dynamics of Consumer Banking Relationships study defined five consumer segments that provide opportunities for financial institutions to better differentiate the customer servicing experience and design product bundles to more effectively address customer preferences. The segments — Marginalized Middles, Disengaged Skeptics, Satisfied Traditionalists, Struggling Techies and Sophisticated Opportunists — have their own unique characteristics and views concerning banking overall, their primary financial institution and other factors, ranging from their personal financial situation to the regulatory environment.

An improved understanding of these differences and nuances better enables bank executives to rethink marketing strategies and approach these segments in a more targeted, cost effective manner — for an improved customer experience and greater investment return.

Preview of Key Findings

- Five core consumer segments — ranging from Marginalized Middles to Sophisticated Opportunists — were identified and profiled in the study
- Consumers are generally satisfied with their primary financial institution, but there is still room for improvement
- Customers are eager for financial institutions to approach them with additional products and services to address their needs
- Aligning channel and sales configuration according to segment mix and positioning of your financial institution is critical for revenue growth
- Vital differentiators in consumer segments go far beyond assets, income and other demographic indicators
- Customer segments created as recently as one or two years ago will need to be replaced based on the new market realities

ACTION POINT

Emerging trends and evolving demographic segments can be used to drive revenue in your institution. In terms of operational implications, this can mean targeting offers to the most receptive customers within your overall account base and differentiating the servicing experience based on the customer's channel preferences. The emphasis should be on what you can do at your institution without a lengthy implementation process.

Five Core Consumer Segments Enable More Targeted Approaches

The study identified five segments representing the current consumer landscape. With a better understanding of the differences in consumer preferences and attitudes, financial institutions can more effectively tailor products, services, pricing, marketing, sales and communication to customer needs. This more targeted approach allows financial institutions to maximize share of wallet and develop deeper customer relationships. Banks can focus on specific segments that are attractive to serve and that may offer the best opportunity for growth. The five segments are defined as follows:

- **Marginalized Middles** – By far, the largest segment in size, these consumers tend to be below average age* with above average income**. They also make up almost 40% of the large national bank population. However, this same segment is the least satisfied with their primary financial institution and the most confused about bank fees. These consumers visit branches least often of all the segments, and are the most likely to pay someone else to handle their finances.

ACTION POINT **Providing consistent and clear marketing messages, including fee disclosure information, could resonate with this segment.**

- **Disengaged Skeptics** – The second oldest group of consumers, this segment has below average income** and is overall disengaged with the financial services industry. They are less likely than most groups to use any available services, particularly mobile. These consumers have the lowest monthly usage of most channels and also tend to have a high concentration of accounts with other financial institutions, including brokerage firms and other non-traditional channels.

ACTION POINT **The door is open for other financial institutions to entice these dissatisfied consumers with similarly priced products and enhanced customer service.**

- **Satisfied Traditionalists** – The oldest group of consumers with approximately average income**, this segment is generally satisfied with their primary financial institution. However, they have the lowest share of wallet at their primary financial institution and are not likely to consolidate their products at one financial institution. Additionally, this segment is the least likely to utilize online, mobile or debit services. Also noteworthy, these consumers have the second highest total deposit revenue per household potential, and they expect a wide variety of product offerings. The second most highly concentrated group at community banks, these consumers have the second lowest concentration at large national banks.

ACTION POINT **This is a tempting group as they tout a high deposit revenue per household potential and the highest investment balances so building a wide product base to satisfy these consumers could potentially drive share of wallet and revenue.**

- **Struggling Techies** – This segment is home to the youngest group with the lowest income. Active in their finances and comfortable making tough financial decisions, these consumers are very receptive to financial institutions proactively pursuing their business with tempting offers. They are also the most likely to use online, mobile and debit services — and to use them frequently. While this group has low deposit balances, they have the highest share of wallet at their primary financial institution. These consumers are at the point in their lives where there is very low total deposit revenue per household potential.

ACTION POINT **The receptivity of these consumers combined with their balances across all products makes them a segment worth targeting.**

- **Sophisticated Opportunists** – Of average age* and with the highest income, these consumers report the highest satisfaction with their primary financial institution. Much like the Struggling Techies, they are very receptive to financial institutions proactively pursuing their business with tempting offers. These consumers are knowledgeable about the banking world and comfortable making decisions regarding their finances. Their use of mobile and debit reward services is higher than most of the other segments. These consumers have the highest total deposit revenue per household potential.

ACTION POINT **Treat this high-potential group well, providing them with the right tools and innovative products to allow them to manage their own finances.**

*AVERAGE AGE = 45.5
**AVERAGE ANNUAL INCOME = $62,100

Segment Profile — Overview

The five segments identified in the study can provide direction to help financial institutions more precisely target value propositions. While many financial institutions tend to market to the "average" customer, hidden within the broad customer base are often distinct segments with extremely different preferences. By understanding the differences across segments, financial institutions can more closely address individual customer needs. The result is improved customer interaction across channels leading to deeper relationships and greater share of wallet.

Marginalized Middles 36%	Disengaged Skeptics 18%	Satisfied Traditionalists 18%	Struggling Techies 21%	Sophisticated Opportunists 7%
Below average age with above average income	Second oldest group with below average income	Oldest group with roughly average income	Youngest group with lowest income	Average age with highest income
Largest segment, they make up about 40% of the large national bank population Least satisfied with their primary financial institution while most confused about bank fees They visit the branches least often of all the groups Most likely group to pay someone else to handle their finances	This segment is the least satisfied group with all aspects of customer service at their primary financial institution They are less likely than most groups to use any available services, especially mobile Lowest monthly usage of most channels High concentration of accounts at other institutions, including brokerage firms and other non-traditional channels	While this segment is satisfied with their primary financial institution, they have the lowest share of wallet there and are not likely to consolidate their products at one institution This segment is also the least likely to utilize online, mobile and debit services However, they do have the second highest total deposit revenue per household potential and expect a wide variety of product offerings They are the second most highly concentrated group at community banks and have the second lowest concentration at large national banks	Active in their finances and comfortable making tough financial decisions, this segment is very receptive to financial institutions proactively pursuing their business with tempting offers Most likely to use online, mobile and debit services and to use them frequently While this group has low deposit balances, they have the highest share of wallet at their primary financial institution. At this point in their lives, however, there is very low total deposit revenue per household potential	This group is the most satisfied with their primary financial institution and, like the Struggling Techies, are very receptive to financial institutions proactively pursuing their business with tempting offers They are very knowledgeable about the banking world and comfortable making decisions regarding their finances Their use of mobile and debit reward services is higher within this segment than most other groups This group has the highest total deposit revenue per household potential

NOTE: PERCENTAGES REPRESENT PERCENT OF TOTAL STUDY PARTICIPANT UNIVERSE.
AVERAGE AGE = 45.5
AVERAGE ANNUAL INCOME = $62,100

This research was conducted, in part, to obtain responses that would allow us to segment in such a way that more targeted marketing efforts could be undertaken with this information. The segments in this research were formed using respondents' attitudes towards banking in general.

Greater Precision: Powerful, New Segmentation Models

While most existing segmentation models are fairly rudimentary, newer, more robust schemas go beyond some combination of assets, income and age to include attitudes, preferences, customer satisfaction, relationship with primary financial institution and other factors. This advanced segmentation allows financial institutions to more precisely identify which customers to target and how to best market and serve them to expand the share of wallet.

INSIDE THE MINDS OF CONSUMERS:
Views on Financial Institutions

When asked about their attitudes and knowledge of financial institutions overall, consumer responses reveal fairly distinct differences between segments. These variances can be used as guideposts to create a unique value proposition for retail and branch-based customers. Success will hinge on a financial institution's ability to effectively leverage existing information, analytics and technology for targeted marketing and account servicing efforts. For example, the research showed that 76% of Sophisticated Opportunists ranked "wide product selection" as very important. For this segment, in particular, any product bundling program should offer flexibility and variety — in keeping with their preference for a range of product choices.

Consumers' Attitudes on Financial Institutions

Percentage Who Strongly and Completely Agree

	MARGINALIZED MIDDLES	DISENGAGED SKEPTICS	SATISFIED TRADITIONALISTS	STRUGGLING TECHIES	SOPHISTICATED OPPORTUNISTS
Will go with one FI for a financial reward	57%	8%	13%	83%	82%
Will go with one FI if it has what I need	51%	8%	19%	74%	86%
Very knowledgeable about my FI's fees	18%	9%	72%	54%	100%

While Sophisticated Opportunists consider themselves very knowledgeable about fees, this attitude is not shared by customers in the Marginalized Middles segment, in which only 18% strongly agree with that statement. As this group is by far the largest segment, 36%, here is an opportunity for financial institutions to provide better clarity and understanding around fees, helping to improve the customer relationship. This is typically one of the easier marketing challenges to address via timely and easier to read disclosures.

Drill Down: Consumers and Their Personal Finance Preferences

Percentage Who Strongly and Completely Agree

	MARGINALIZED MIDDLES	DISENGAGED SKEPTICS	SATISFIED TRADITIONALISTS	STRUGGLING TECHIES	SOPHISTICATED OPPORTUNISTS
Actively involved in my day-to-day finances	44%	14%	83%	92%	99%
Prefer online and self-serve channels	26%	9%	27%	64%	55%
Not comfortable investing in current market	28%	22%	25%	33%	26%

Perhaps not surprisingly, the amount of active involvement in day-to-day finances varies by a wide range across segments, from a high of 99% to a low of 14%. Consumers, though, are generally in agreement that they are not comfortable investing in the current market, with rankings varying by only 11 points, from 33% to 22%. This supports a key finding from the study that consumers are open, and actually looking for, financial advice — another opportunity for financial institutions to fulfill an unmet customer need and expand the relationship. Likewise, financial institutions can make sure that those who prefer online and self-serve channels have easy-to-use tools, and assistance when needed, at their disposal.

ACTION POINT

Variances in the different consumer segments can serve as guides to create unique value propositions based on each group's attitudes and preferences. Your financial institution's ability to effectively leverage existing information, analytics and technology for targeted marketing and account servicing will be critical to the success of this strategy.

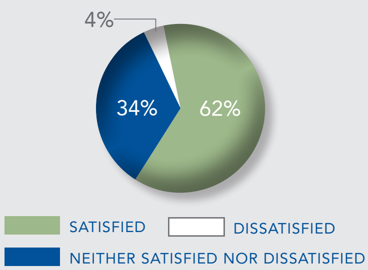
Consumers and Their Primary Financial Institutions

As bank executives focus on expanding existing customer relationships to increase revenue, there is good news. While some consumer polls have shown low approval ratings for the banking industry in general, this most recent study shows that the attitudes of consumers towards their primary financial institution and its staff are overall positive. Consumers' satisfaction with their primary institution comes in at a strong 62%, generally better than had been anticipated at the study's onset.

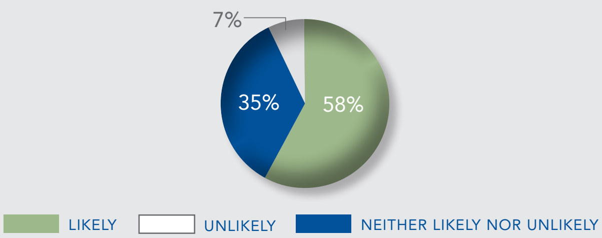
While the likelihood to recommend their primary institution decreases slightly to 58% compared to overall primary satisfaction, these are still good signs. Other results show potential opportunities to grow share of wallet. As shown in the chart below, a strong majority of consumers agree that their primary financial institution executes transactions accurately and quickly, and has a warm and friendly staff in the branch and contact center. However, fewer respondents agree that their primary financial institution proactively suggests financial products. This is an opening for financial institutions to drive more business — and segmentation can be used to identify and target those customers who are most receptive to new products and marketing campaigns.

CLOSER LOOK

SATISFACTION with Primary Financial Institution



LIKELIHOOD to RECOMMEND Primary Financial Institution



Good news: Consumers overall are satisfied and likely to recommend their primary financial institution.

Views on CUSTOMER SERVICE

Growth opportunity: Consumers generally do not find their financial institution's push for new products to be very proactive — a potential opening for increased share of wallet.

NOTE: For a description of how rankings were calculated and another view of consumer satisfaction with their primary financial institution by segment, see the chart on the next page.

ACTION POINT

Overall, consumers are very satisfied and likely to recommend their primary financial institution. Customer service is recognized as performing well across several measures. However, consumers do not find, in general, the financial institution's push for new products to be very proactive.

SEGMENT VIEW: Satisfaction with Primary Financial Institution and Customer Service

When it comes to overall satisfaction and likelihood to recommend their primary financial institution, consumer attitudes on these two topics are very similar to their attitudes on customer service. As the chart below shows, customers who agreed that their primary financial institution proactively suggests financial products also reported the highest satisfaction with that institution. For example, three segments — Satisfied Traditionalists, Struggling Techies and Sophisticated Opportunists — gave high scores on both these measures. The opportunity to grow share of wallet is there for those financial institutions ready to leverage this deeper understanding of the customer segments they serve.

		TOTAL	MARGINALIZED MIDDLES	DISENGAGED SKEPTICS	SATISFIED TRADITIONALISTS	STRUGGLING TECHIES	SOPHISTICATED OPPORTUNISTS
Overall Satisfaction with Primary FI *Percentage Who Are Strongly and Completely Satisfied*		62%	56%	56%	72%	65%	75%
Overall Likelihood to Recommend Primary FI *Percentage Who Are Strongly and Completely Likely*		58%	52%	52%	66%	62%	75%
Primary FI Customer Service Ratings *Percentage Who Strongly and Completely Agree*	Provides access to specialists to discuss my financial needs	51%	44%	38%	61%	61%	70%
	Proactively suggests financial products to me	39%	32%	28%	45%	47%	60%

NOTE: The figures in the chart above and on the previous page represent the scores from a 7 point scale where 1 was Extremely Dissatisfied, 2 – Dissatisfied, 3, 4 and 5 – Neutral, 6 – Satisfied and 7 – Extremely Satisfied. The satisfied rating represents the respondents who chose 6 and 7, the neutral rating represents those who chose 3, 4 and 5, and the dissatisfied rating represents those who chose 1 and 2. A similar rating scale is also used for the likelihood to recommend scores (Extremely Likely, Likely, etc. and Strongly Agree, Agree, etc.).

ACTION POINT

Consumer attitudes about their primary financial institution reveal some key attributes behind what drives satisfaction and the likelihood to recommend. The study also analyzed these findings across all five segments. This segmentation allows financial institutions to better identify and target customers most receptive to specific new product offerings and retail marketing campaigns.

Revenue Opportunity: Key Themes Across Segments

While each segment has its own unique characteristics, there are some attitudes and preferences that are relevant, to a greater or lesser extent, across all customer segments — providing an opening to expand relationships with these existing customers.

- Self-service channels should be touted — not only does self-service reduce the risk of transactional errors, but it also allows for steadfast, consistent messaging about product offerings, which improves customer satisfaction.
- Escalate efforts to provide advice and counsel regarding financial products and services. There is a high correlation of satisfaction with the agreement statement "my financial institution proactively suggests financial products to me."
- Findings also show that transparency and education about fees is one key to turning around low satisfaction.

FOCUS ON: Service and Channel Usage by Segment

As bankers review these findings, it is important to look at this analysis in context of segmentation. If particular results are simply considered in terms of age and income, they present one profile. Whereas when viewed through the prism of rigorous segmentation, variations of the profiles begin to appear that can inform an institution's distribution and marketing strategies.

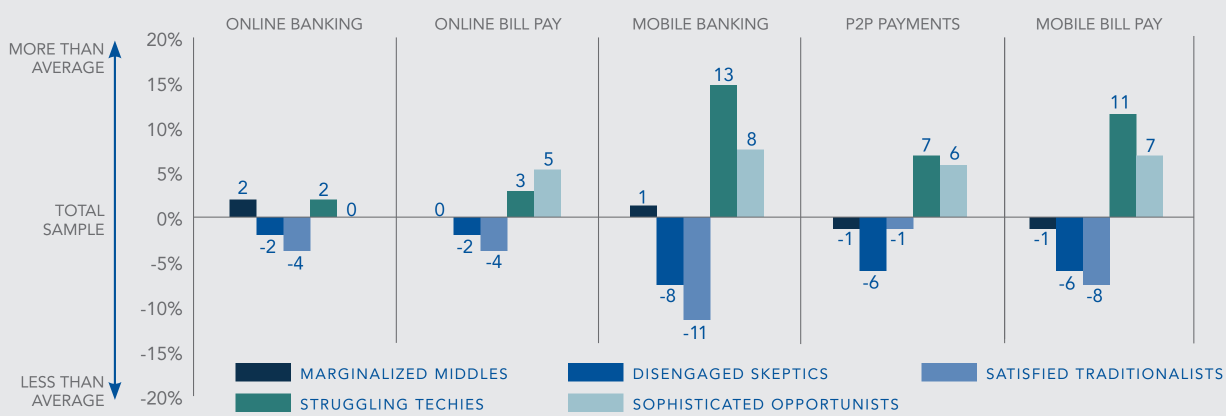
The chart below shows the channels and services most frequently used across all five consumer segments. The more mature channels and services, such as online banking and debit card, naturally pull in some of the highest usage percentages. Perhaps, and not surprisingly as well, direct deposit is also climbing up as an offset to checking requirements and fee avoidance. Keep in mind, these are primary checking accounts — not ones at other institutions. Mobile banking, on the other hand, generally shows lower usage rankings. This is most likely driven by the mature alternatives available in the U.S. Mobile use is far more widespread, for instance, in other countries that do not have the branch infrastructure of the U.S. markets. But given access to tellers, ATMs and other channels, these scores remain relatively low. As needs and comfort with mobile, contactless and other alternatives grow, these numbers are anticipated to tick up substantially.

ACTION POINT

Customer segments created as recently as one to two years ago will need to be replaced with new and expanded versions given the new market realities. Assess your institution's capabilities compared to these segments to determine the points of intersection. Thoroughly re-examine your customer engagement strategy, making sure you are targeting the right segments with the right products, services and channels.

SEGMENTATION PRISM: COMPARISONS OF KEY DIFFERENTIATORS

Banking and Payment Channels — Usage at Primary Financial Institution
shown as % more or less likely to use as compared to the average



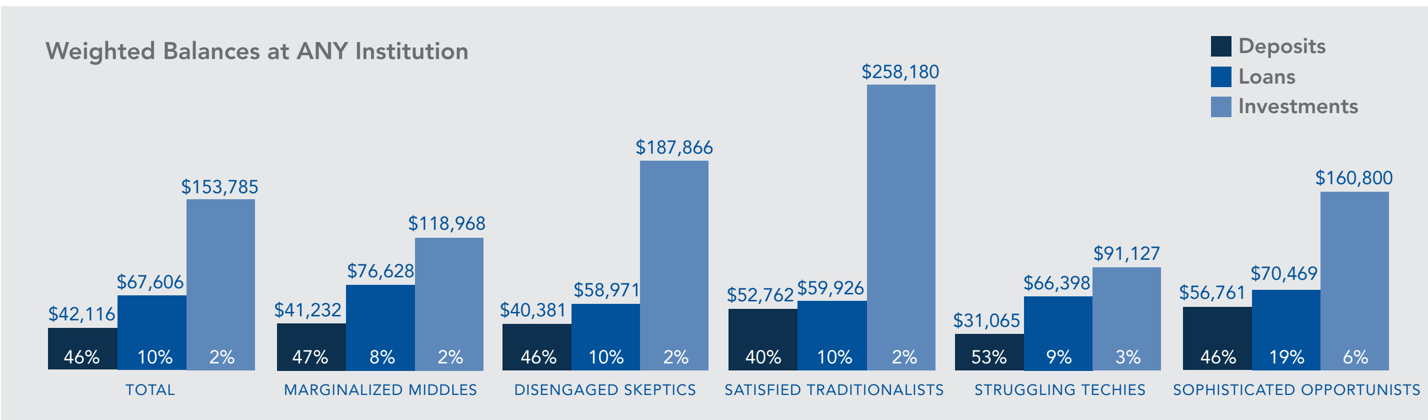
As shown in the chart above, Struggling Techies are more likely to use online and mobile options at their primary financial institution than any other segment. Conversely, Satisfied Traditionalists are less likely to be online or to use mobile financial capabilities.

While the Struggling Techies may embrace technology channels and emerging components, they generally currently lack the financial wherewithal to be among the most valuable customers of an institution. However, keeping these young customers involved by providing banking channels they prefer may make them more vested in your institution as they grow into a more profitable segment.

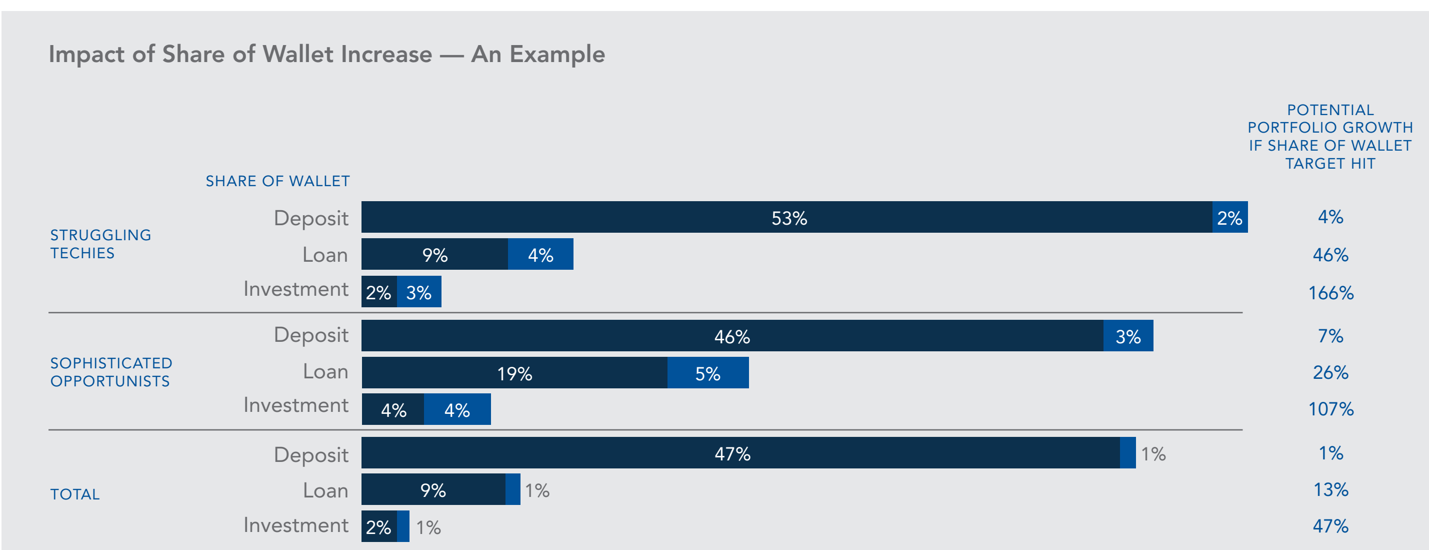
On the other hand, Satisfied Traditionalists score low in mobile banking usage. These consumers are typically ambivalent to these types of alternatives as they tend to rely heavily on in-person channels. Here, too, these deeper segment perspectives can help financial institutions determine if this market aligns with strategic plans.

Capitalizing on Opportunities for Share of Wallet Growth

As financial institutions focus their efforts on increasing share of wallet from existing customers, more robust segmentation models can propel that effort by identifying segments most receptive to additional products and services, incentives and other cross-sell efforts. These findings can reveal more opportunities within a financial institution's current customer base. For example, a financial institution can focus on loan balances at the various segments and determine which ones they might like to target for an incentive, such as offering reduced or fee-free checking with a credit card.



In the chart above, Satisfied Traditionalists have the greatest amount of investment dollars at any institution — $258,180. Yet, only a small percentage of that amount, 2%, is at their primary financial institution. Meanwhile, the third highest segment in terms of investment dollars, the Sophisticated Opportunists, have $160,800 in investments, with 6% of that maintained at their primary financial institution.



Targeting a small percentage of the most receptive customers for modest share of wallet increases can have a dramatic impact on a financial institution's overall loan portfolio growth. As shown above, increasing loan share of wallet 4% and 5% for Struggling Techies and Sophisticated Opportunists, respectively (which together represent only 28% of a large financial institution's typical total customer base), results in a 13% potential portfolio growth for the overall institution.

ACTION POINT

With modest increases in share of wallet, each product line sees huge potential for portfolio growth, particularly within the investment area.

SEGMENTATION INSIGHTS: Considerations on Study Findings

While there is a consistent cycle to banking products and services, the time is opportune to consider more developed forms of segmentation. Today's segmentation efforts are rudimentary, and usually involve overlays and some age, income or asset segmentation. These can be very effective for their purpose, but with the advent of social media and other channels of communication, segmentation platforms must move to the next level.

Given all the macroeconomic considerations and shifts in housing and unemployment, the economic outlook remains a concern for most U.S. consumers. As such, their need for guidance and services from financial institutions to help manage their money is likely to continue growing. However, this guidance and these services do not always have to be performed in person or offered at a branch. There are low-cost mechanisms for meeting those customer needs. The top online brokerage firms do a tremendous job of managing customer relationships through good toolkits and call centers. There isn't a silver bullet for all, and for certain segments, such online alternatives apply more favorably. The Struggling Techies, for example, have an immense liking for all things technological; whereas the Marginalized Middles, could benefit from clearer messages and information around fees and rates. Segmentation can help better identify consumers more open to online, phone and mobile alternatives.

Key Recommendations

With a better understanding of differences in consumer preferences and attitudes, financial institutions can more effectively tailor products, services, pricing, sales and communication to customer needs. Here are some insights to help financial institutions focus on the segments they are well positioned to serve and that may offer the best opportunity for growth.

MARGINALIZED MIDDLES

This is the **largest segment** and the group with the second highest revenue per household potential for checking accounts

While these consumers are the **least satisfied with their primary financial institution,** the size of this segment may make it impractical to provide more personal assistance. Frequent, easy-to-understand marketing messages and other communications, particularly around fees and rates, could help improve customer satisfaction.

Additionally, this group visits branches the least often — rather than in-person interactions, offering them more education on the use of **self-service channels** could be a low-cost way to further solidify the relationship.

DISENGAGED SKEPTICS

This segment is **very dissatisfied** with all aspects of customer service at their primary financial institution

Their current concentration of accounts in other financial institutions (i.e. brokerage firms) and lack of channel and service usage leaves the door open for these other institutions to capture greater share of wallet with them through similarly priced products and the added bonus of **enhanced customer service**

As this is the second oldest segment, competitive products could also be marketed as a less risky transition product as they draw nearer to retirement

SATISFIED TRADITIONALISTS

This segment is a hard group to pin down as they have **low receptivity to product offerings** and technological advances made by other institutions in addition to a low deposit share of wallet

However, they are a tempting group as they tout **a high deposit revenue per household potential and the highest investment balances,** so **building a wide product base** within an institution focused on satisfying this group could potentially drive share of wallet and revenue

Products and services that **manage cash flow with low risk** could catch the attention of this group as they are the oldest segment

STRUGGLING TECHIES

Currently, **a low deposit revenue potential** group who are **averse to fees,** but have an **immense liking of all things technological.** Their receptivity combined with their balances across all products makes them a segment worth targeting

If it is possible, involve them in your technological innovation and social media initiative processes. Other than this interaction, their banking style allows for a relatively hands-off approach

As the **youngest group,** involving them in aspects of banking they are drawn to may get them more vested in your institution early on and keep them as customers as they grow into a more profitable segment

SOPHISTICATED OPPORTUNISTS

High-potential group, needs to be treated well — and **provided with the right tools** (such as online financial planning and investment management) as well as other innovative products that allow them to **manage their own finances**

They are very knowledgeable, so clarity around fees as well as product features and benefits is important

This segment is the most receptive to consolidating with one financial institution, so **product packaging** is important (i.e. offering rewards)

ANALYSIS IN ACTION:

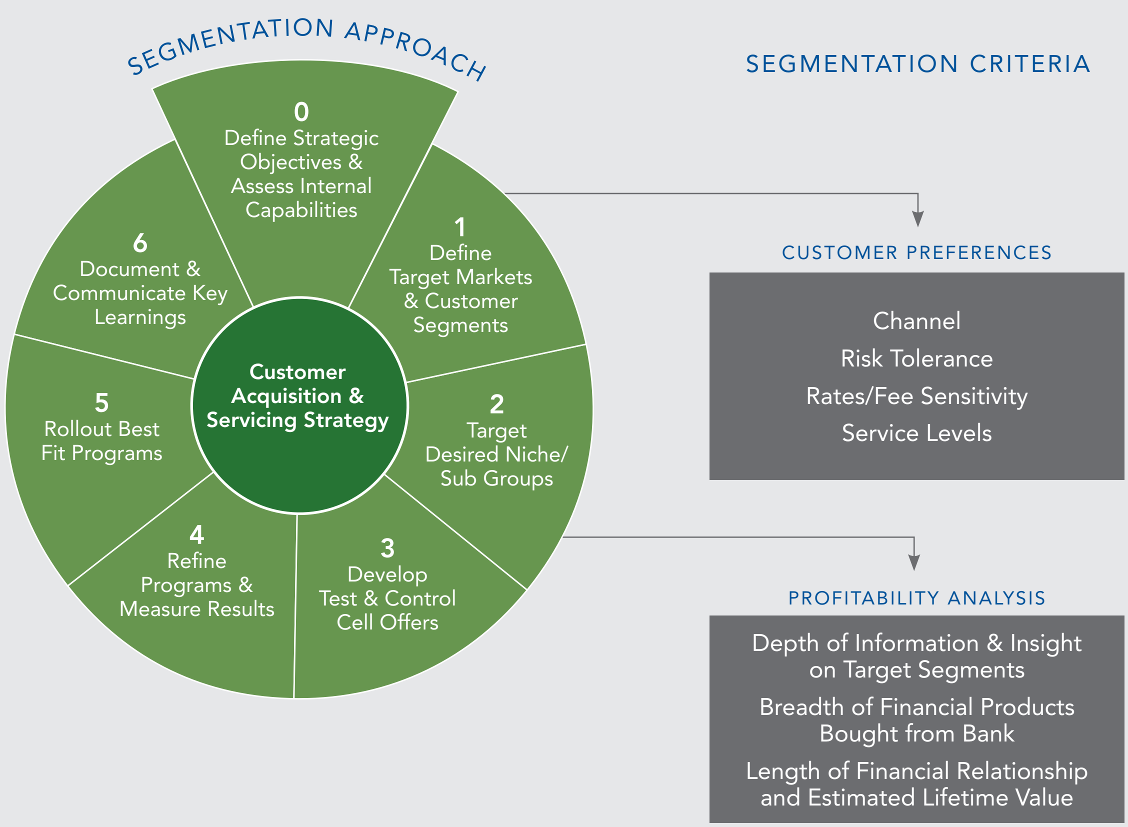
Retail Banking Segmentation Model

A key enabler of any customer acquisition and servicing strategy is determining what a bank is trying to achieve as it embarks on a customer segmentation project. While one business unit focus may be on retaining customer relationships, another may want to assess if they should offer more products or package/price them differently. Whatever the objective, the segmentation approach should be customized to the specifics of the bank's customer base and technology maturity.

Savvy Segmenting

Examining each activity as part of an end-to-end process can help identify which activities are most critical for success in your segmentation approach. As shown in the chart below, once the bank has defined its strategic objectives and assessed internal capabilities, it can better determine target markets and customer segments. Central to this step is considering customer preferences — do they prefer branch versus online or mobile, for example. Profitability analysis and modeling can identify which niche and sub groups to target for product offer testing, which can then be bundled or modified based on results to better attract receptive segments. The "best fit" programs will then be ready for rollout with ongoing tracking and measurement. Lessons learned throughout the process should be documented and communicated to the marketing and product strategy teams for ongoing refinement of the segmentation approach.

Segmentation Framework



ENABLING CROSS SELLING AND UP SELLING ACROSS LINES OF BUSINESS

A leading U.S. super regional bank knew it was missing opportunities to not only increase sales and improve service across business lines but also to better understand customer needs. Its goal was to transform the current operating model into a segmented and relationship based model to enable cross selling and up selling across various lines of business, including Consumer, Commercial and Wealth Management.

A key objective was to identify and develop enhanced capabilities for Sales and Service, in keeping with the bank's push to support insight-driven selling and drive collaboration across business units, particularly Consumer, Private and Small Business segments. The overall strategy was to improve customer experience through end-to-end service request visibility and cross channel integration.

THE APPROACH:
Providing End-to-End Business Transformation

The challenge was extensive as the super regional bank provides broad services and products to a customer base throughout the United States. The financial institution offers a wide range of financial and banking services — from retail banking, investment management and commercial banking to consumer finance and investment banking — to individuals, institutions and companies in multiple states and time zones.

The super regional turned to Cognizant Business Consulting for the critical end-to-end business transformation it needed. The Cognizant team supported Enterprise Business Transformation planning by understanding bank processes and providing both the Business and IT Strategy Blueprint & Roadmap for multiple functions, including sales and servicing. Additionally, Cognizant leveraged its proprietary Business IT Reengineering methodology to develop detailed requirements. In-depth workshops were conducted with stakeholders to obtain consensus on guiding principles, requirements and implementation priorities.

The well-planned process included modeling and documenting business requirements and identifying gaps and challenges for an issue-free business transformation. Joint requirement and design sessions conducted by Cognizant refined the best fit model and identified resources required for execution. Cross business unit sessions facilitated dissemination of customer segmentation and sales process best practices.

KEY PROJECT OUTCOMES:
Streamlined Sales Process and Increased Revenue Growth

The Cognizant solution allowed the financial institution to reach its core objectives, including:

- Enhancing client insights to allow **better identification** of sales opportunities
- Increasing customer acquisition and retention by **better understanding** customer needs
- Improving productivity via easier access to customer data and **better collaboration** tools

By transforming its operating system into segmented and relationship based models, this super regional bank was able to materially improve both customer satisfaction and retention while accelerating achievement of strategic goals.

TRENDS AND TAKE-AWAYS

Customer segmentation is a pressing issue for financial institutions. While these institutions, particularly consumers' primary financial institutions, are seeking to expand share of wallet, they often lack a prolific understanding of their existing customers. In fact, as this research revealed, financial institutions only capture 46% of a customer's total deposit balances. The percentage of total balances captured is even lower for other types of accounts — just 10% of a customer's total loan balances and 2% of the total investment balances are held at any one institution. Clearly, the opportunity is there for financial institutions that are ready — and technologically equipped — to take advantage of it.

Financial institutions have already begun to recognize segmentation as a strategic approach to their customer base that could significantly improve those numbers. Another BAI Research study conducted in February 2012 shows the top investment area for marketers and product development at financial institutions with over $2.5 billion in assets is segmentation strategies. For financial institutions under $2.5 billion, it is relationship packaging and pricing strategies followed closely by segmentation strategies.

Yet, despite this renewed focus on customer segments, very few financial institutions currently implement segmentation strategies beyond rudimentary marketing programs. Segmentation approaches should be communicated to all front-line employees to ensure the message and goals are consistent and understood. From this complete understanding, segmentation can be leveraged in channel management and marketing and sales efforts.

While these are the segments identified in this study, your institution's customer base may have a different composition. Along with that, you may have different strategic goals and target markets, which will help further define your segmentation approach. These insights and analyses can be used as a guide to applying segmentation in your own financial institution.

The type of products, channels, services and advice your financial institution presents must be customized to the particular segment being targeted. Each group will respond differently to different approaches, making it even more important that the right customers are getting the right products and message.

Revenue Driver: Impact of Segmentation

Moving beyond age and income demographics, attitudinal statements add a new, valuable layer to segmentation. The challenge is how to take this insight and apply it to your customer base.

AN EXAMPLE:

Using the findings from this study, including age, the ownership of products, balances, and channel usage, the probability that a specific person falls into a specific segment can be calculated. Looking at the Struggling Techies specifically, these consumers are typically 21-34 years old and are among the heavier users of mobile banking/bill pay, P2P, and debit/rewards debit. Again, based on the research, if a customer meets those criteria, there is a 2 in 3 chance that they are a Struggling Techie. From this assumption, you can back into the attitudes that this group typically displays. Among other strategies, you can customize interactions with these customers to play to their above average likelihood to consolidate their financial products for a reward or to gain access to more innovative solutions.

STUDY METHODOLOGY

Phase II — National Consumer Survey

To achieve the research objectives, the New Dynamics in Consumer Banking Research Program utilized a two-phase approach. **This report focuses on Phase II:**

- A comprehensive survey was conducted among a nationally representative sample of 3,200 consumer households to obtain detailed intelligence on a range of personal financial and financial institution consumer behaviors, attitudes, beliefs and preferences. The research insights include:
  - Conjoint/discrete choice model to assess tradeoffs of pricing, convenience, and other drivers of choice/selection and financial institution usage.
  - Segmentation to uncover unique financial institution consumer segments in terms of preferences and motivators of financial institution product and service selection and usage.
  - Profiles of financial institution consumer product and wallet share characteristics by psychographic and demographic variables.
- In the quantitative portion of this study, responses were collected from consumers who met the following criteria:
  - Sole or joint decision-maker for financial goals in household
  - Any type of deposit, loan, or investment account with any type of financial institution
  - Between the ages of 21 and 74
  - Household income of at least $25,000
- The 3,200 respondents reflect the U.S. Census demographics across age, gender, and region. The regions are Northeast, Midwest, South, and West.

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