Intuit 2020 Report

THE FUTURE OF FINANCIAL SERVICES

A Redefined Banking Experience Will Help Customers and Financial Institutions Thrive in a Connected World

2020 Forecast for Financial Services

ABOUT THE REPORT

This report provides a view of the significant demographic, economic, social and technology trends and forces that will affect the financial services industry over the next decade.

The starting point for this forecast is the Intuit 2020 Report, released in October 2010, which identified 20 emerging trends and shifts that will shape business and society over the next decade.

To prepare this follow-up report, Intuit Financial Services and Emergent Research conducted a series of forecast workshops, exercises, and interviews with financial institutions, academics, and industry analysts. These sessions identified the important trends and implications that will affect the financial services industry.

Intuit 2020 reports and related materials are available at www.intuit.com/2020.

IMAGINE A WORLD WHERE...

The financial services industry provides customer-driven, personalized products and services that use predictive analytics to turn complex data that once seemed unmanageable into clear, action-oriented roadmaps that help customers make decisions.

The Future – April 2020: Olivia is in her Realtor's office, checking her financial portfolio on her smartphone. She's considering purchasing a new home and wants to know how her bank can assist her. She opens a banking app to contact and work with her personal banking specialist. A few minutes later, the specialist responds with an approved, customized financing package based on mortgage market data, an analysis of Olivia's income and expenses, and a risk-adjusted assessment of her banking history and investment portfolio. The bank also provides a property appraisal and suggests an opening offer. Olivia makes an offer based on her banker's input and closes the deal.

Nathan, a chief executive officer of a manufacturing company, turns to a local bank for a financing package to help his firm expand. He worries that the bank will reject his application because his company, which focuses on product design and partners, has few tangible assets. As part of its risk assessment, the bank analyzed Nathan's social reputation and customer satisfaction, and included a sophisticated review of his intellectual property. Based on that, the bank concludes that Nathan is an excellent risk and offers terms better than he had expected.

Lee and Darlene retired a few years ago and are concerned about expenses. They go online to contact their credit union specialist, who runs a profile for them, maps out the expected spend for families like theirs and identifies potential areas where the couple can save. The credit union breaks down the information into an easily understood presentation so the couple can make quick comparisons and see the effect of spending changes. Their specialist identifies a cheaper insurance option from a credit union partner and several ways that Lee and Darlene can save on taxes. The insurance is instantly approved by a proprietary risk model and the couple starts saving immediately.

Present Day – April 2011: The trends that emerged at the turn of the millennium will shape the financial services world of 2020. Responding to those trends, which reflect larger societal shifts, the financial services industry must establish new relationships with its customers. This report examines four broad trends, and their influence on the financial services industry.

- A New Playing Field for Financial Services
- Shifting Segments, Changing Markets
- The New Customer Connection
- Reputation and Relationships Rule

Here's a closer look at each.

I. A NEW PLAYING FIELD FOR FINANCIAL SERVICES

The next decade will see the effects of the Great Recession continue to reverberate. Regulatory pressures will increase and competition will grow from both traditional competitors and new entrants. These forces will create new business models, fuel industry collaboration and partnerships, and increase industry consolidation.

Regulatory Pressures Drive Business Model Changes

Government supervision of the financial services industry is changing significantly. New regulatory measures will attempt to reduce the risk of future financial crises and increase consumer protection. Stronger regulation will significantly change financial institution management and reporting, leading to higher costs.

Regulatory change will also fundamentally reshape financial institution business models. New consumer protection laws will restrict banking fees and increase their transparency, reducing revenue and margins for many financial products and services. To compensate for the loss of regulated revenue, financial institutions will need to reduce cross-product and services subsidies, eliminate some free services, and redistribute fees and charges to ensure profitability across all customer segments.

This shift will not be easy. Many financial institutions will suffer short-term declines in revenue and profitability. Successful financial institutions will build stronger relationships with their best customers and develop new fee structures and business models to profitably serve all their customers.

New Entrants, Big and Small, Target Financial Services

Competition will intensify as new entrants target financial services. Nontraditional competitors include some of the world's largest corporations and best-funded, venture-backed startups. These firms believe that new technology and the shift to online banking provides the platform to enter the industry and attract customers with new methods, approaches and business models.

Walmart, for example, now offers a growing array of financial products, including small business and consumer credit. In addition to being the largest grocery retailer in the United States, Walmart provides small business and consumer financial services, and partners with a financial institution called Superior Financial to offer small business loans. In Canada, Walmart gained regulatory approval to open a bank, which focuses on consumer credit cards and payments. Google, Microsoft, Apple, eBay and other large technology firms have also entered or plan to enter the financial services industry.

Venture-backed startups also covet the financial services industry, attracted by its size and scale. As consumers and businesses become more comfortable managing their finances online, these startups see a unique opportunity to disrupt existing competitors with new approaches and business models. Online banking, payments, personal and business financial planning and credit are just a few of the areas targeted by venture-backed firms.

Collaboration, Consolidation and Partnering Increase

This new environment of increased regulation, new competition and industry change will disrupt the financial services industry. The costs of regulation and competitive pressures will lead to industry consolidation. The need to improve scale advantages, spread increasing regulatory costs over a larger base of business, and lower costs by improving efficiencies will result in more mergers, acquisitions and industry consolidation.

Industry success, and the very survival of individual firms, will require both focus and specialization to attract and serve profitable customer segments. Through partnerships and collaboration, smaller and mid-sized players will provide the breadth and depth of services customers require at an affordable cost.

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- Nontraditional competitors using new technology, business models and, in some cases, regulatory advantages will target attractive market segments.
- Scale and regulatory-driven industry consolidation will require most financial institutions to decide whether to stay independent, be acquired or become an acquirer.
- Strategic partnering will increase, both as a way to gain scale and as an alternative to consolidation.
- Industry change will create growth opportunities. Financial institutions that don't adapt are at risk of being relegated to highly regulated, low margin and growth providers of commodity services.

II. SHIFTING SEGMENTS, CHANGING MARKETS

The coming decade will spur a broad range of changes in the profiles of financial service customers. Demand for financial services will increase across all age groups. The two largest contingents – aging baby boomers and GenYers – will demonstrate particularly acute shifts in their needs and types of products and services they purchase.

The small business sector will continue expanding, with the total number of small and personal businesses increasing by more than 7 million over the next decade. Most of this growth will come from micro- and personal businesses – firms that the financial services industry has traditionally found difficult to serve profitably.

Consumers: Seeking Help for Risk Management

Over the past few decades, economic changes have shifted risk management responsibilities from institutions to individuals, a trend that will continue through 2020. Companies will further shift the responsibility and costs for retirement and health care to employees. Fiscal problems will reduce social support services from federal, state and local governments.

Individuals will become responsible and accountable for most risk-related decisions in the areas of financial planning, retirement, insurance and health care. This risk shift will require consumers to look for products, services and advice that will help them anticipate and understand the implications of financial decisions. Financial institutions are well positioned to help consumers with their increasingly complex personal financial planning needs.

Baby Boomers: Unretirement and the Shift from Saving to Spending

Baby boomers – born between 1946 and 1964 – are gradually becoming today's senior citizens. The oldest turn 65 this year, creating a new breed of senior citizens. By 2020, one in six Americans will be over 65, with more than 60 percent of those being women. Yet, they will not be traditional seniors. Unretirement and active engagement best describe their lifestyle choices as they continue to work part or full-time in current professions or start new careers.

Baby boomers' financial needs will substantially shift as they move into the traditional retirement years. As older consumers reach retirement age, they will shift their focus from accumulating and preserving assets to accessing and spending them.

Because of the trust and long-term relationships they have with their banks, aging baby boomers will look to financial institutions for customized services and products for financial, retirement and estate planning. Banks will also be a resource for health and elder care that meet customers' personal needs. They'll be particularly interested in products and services designed in three areas: maintaining adequate levels of income for day-to-day expenses, covering increased long-term care costs and managing their health and longevity risks.

Gen Y: Transition from Carefree Spending to Careful Financial Management

As baby boomers move into retirement, their children – the Digital Generation or Gen Y – become adults. This group is already an important financial services customer segment. By the end of the decade, the oldest will turn 40, and most will have families and established careers. During this time, they will also enter their prime earning and wealth-building years.

The growing role of women is an important component of this generation. Women will continue to dominate Gen Y's college graduation rates and entry into the professional workforce, expanding their role as users of financial services. Already earning at levels equal to or exceeding Gen Y men, Gen Y females in 2020 will be financial decision makers as businesswomen and consumers.

The Digital Generation quickly adopts new technology. The Internet, smartphones and online social media have become integral to their lives. They have high service expectations and expect to interact with companies who offer goods and services "any place, anytime." They prefer quick, easy and convenient self-service, customizable options that are easily accessible, especially via the Internet and mobile devices.

With their youth behind them, Gen Y still feels the full effects of the Great Recession. Job insecurity, stagnant wages, declining employer benefits and concerns about the viability of government programs such as Social Security have Gen Y concerned about its financial future. Facing this uncertainty, the Digital Generation will turn to banks, credit unions and others who can provide the tools, information, resources and products that help them navigate their complex financial lives.

Personal and Micro-businesses: An Emerging Profitable Market Segment

There are about 26 million personal and micro-businesses in the U.S. and their numbers are expected to grow to roughly 33 million by 2020. Personal businesses typically do not have employees and are often home-based. In many cases, these firms grow to become micro-businesses with several employees, but rarely expand beyond five employees or generate more than a few hundred thousand dollars in revenue.

This small business segment has long been viewed as a key potential target market and profit source for financial institutions. But the costs of attracting, retaining and servicing them have been high, making the segment unattractive.

This will change. Online and mobile tools will increase the range of services offered to personal and micro-businesses, providing new revenue sources for financial institutions. At the same time, the costs of servicing this segment will decrease through the use of online self-service tools and automation. As financial service firms learn to serve personal and micro-businesses efficiently, the segment will become the profit center long imagined.

Main Street Small Businesses Offer Opportunities

Main Street businesses make up about 2.5 million U.S. small businesses. With revenue between $100,000 and $10 million, Main Street is the most visible small business sector both on- and offline. Most restaurants and shops are Main Street businesses, but a growing number of services, industrial and even manufacturing firms fall into this category.

Several trends are driving the growth of Main Street businesses. New technologies have reduced startup and operating costs. Outsourcing, partnering and the use of business infrastructure service companies – such as UPS for logistics, contract manufacturers for production, Amazon for Web services – allow Main Street firms to operate using a high degree of variable costs.

The shift to variable-cost business models reduces capital requirements and the need for scale, while increasing the speed and agility of Main Street firms. This allows Main Street firms to compete and win against larger firms in a growing number of markets.

Main Street businesses are an attractive segment for financial institutions. They require a wide range of services, including deposits, merchant services, trade finance, cash management and credit. Many Main Street business owners, often high net worth individuals, also prefer the convenience of doing their business and personal banking at the same financial institution, further increasing their value and profit as potential customers.

Mid-market: Financial Institutions Compete for Customers

The mid-market – small businesses with $5 million to $200 million in revenue – has traditionally been the most attractive small business sector for financial institutions. These firms are often strong credit users who also require a wide range of fee-based services. This also makes them a key market segment for many small and mid-sized financial institutions.

With regulatory changes making consumer-focused financial services less attractive, the focus on small businesses, especially middle-market customers, will increase. As the number of these firms grows relatively slowly over the next decade, competition will become even stiffer.

For financial institutions, these factors mean lower margins and increased difficulty in attracting and retaining mid-market customers.

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CONSUMER MARKET IMPLICATIONS

- Efficiency and profitability require virtual service and support excellence; personal service will still be necessary to maintain strong customer relationships.
- The risk shift creates new opportunities for financial institutions to become trusted advisors and provide a range of fee-based services.
- Women are increasingly responsible for financial decisions; banks that understand their needs will be able to develop strong, profitable relationships with them.

SMALL BUSINESS MARKET IMPLICATIONS

- Personal, micro- and Main Street small businesses will proliferate, becoming very attractive market segments for financial institutions that understand their needs and serve them efficiently.
- Technology will disrupt traditional business models and, with it, traditional approaches to small business lending. Capital requirements are declining as more small businesses shift to variable cost business models and add value through intellectual rather than tangible assets. Financial institutions that adjust their risk models and lending approaches will be at an advantage.
- Startup costs are close to zero for small businesses. Offering financial expertise to help businesses grow and improve cash flow and profitability will improve and reinforce financial industry relationships with players in that sector.
- By addressing the financial needs of both the small business and its owner with comprehensive services, financial institutions will secure the relationship and improve profitability.

III. THE NEW CUSTOMER CONNECTION

With increased cost pressures and a growing demand for flexibility, accessibility and personalization, financial services organizations will accelerate their use of technology to meet customer needs. The Internet and broadband wireless networks will continue to expand and grow. Cloud computing platforms and applications will combine with advanced analytical tools, ever-larger data sets, and social and mobile computing to reshape the way the financial services industry designs and delivers value-added products and services to customers.

The Cloud Connects Customers

The Internet, connective technologies and cloud computing are creating a new dynamic between companies and their customers. Both consumers and businesses naturally turn to the Internet and online information sources to research, buy and sell everything from books to buildings, movies to music and day care providers to doctors.

This trend toward "pulling" information from multiple online sources – including the rapidly growing online social networks – creates a new market dynamic. Products and prices are more easily compared, reducing the effectiveness of traditional marketing methods and shifting power from producers to their customers.

At its simplest level, cloud computing uses the Internet and private networks to connect users to remote computing resources, which are often sourced from third-party providers.

According to market research firm IDC, the adoption of cloud-based applications will begin to move into the mainstream in 2011. The rapid shift to cloud computing will continue to accelerate this trend over the next decade.

The cloud has spurred the development of applications, or apps – simpler, sleeker and highly focused products that harness the power of the Internet without using a Web browser. Built to accomplish specific tasks, apps connect to remote data and computing services via the cloud. Because of the value apps bring to customers, application providers generate revenue through bite-sized subscriptions and micro-payments. Apps are built, delivered and managed very differently than traditional software, creating new product and service opportunities.

Cloud computing has a number of advantages. It provides a way of adjusting computing capacity up or down to meet demand without investing in new infrastructure or personnel. This greatly increases business agility, turning computing-related fixed costs into variable costs while reducing investment requirements and technology risk.

Mobile Devices: Onramp to the Internet

The cloud also enables high-performance mobile computing by allowing anywhere, anytime access to data and other resources. This accessibility helps small and relatively low-powered mobile devices perform like much more powerful computers.

Over the next decade, consumers and businesses will increasingly turn to mobile devices to manage the complex choreography of work and life. And as they do, smartphones, tablets and notebooks will become the main tools to access the Internet.

The trend is clear. There are more than 4 billion global cellphone users today, according to IDC. In the fourth quarter of 2010, consumers purchased more than 100 million smartphones exceeding, for the first time, the quarterly number of PCs sold.

The next decade will see the transition to mobile computing continue to accelerate. Smartphones will get smarter and tablets and other mobile devices more prevalent. By 2020, mobile computing will replace the traditional approach of desktop computing and PCs as we know them today will exist only in legacy situations, relegated to the same role as typewriters.

Mobile Money Transforms Commerce

Money is both digital and mobile, thanks to smartphones and other portable computing devices. Mobile commerce and transactions are not only dramatically increasing the use of electronic banking and commerce, they are transforming it.

A leading example comes from a surprising location – Kenya. M-PESA (M for mobile, PESA – the Swahili word for "money") is a cellphone-based payments service offered by Safricom, Kenya's largest mobile phone company.

M-PESA was started in 2007 to offer small borrowers an easy way to use their cellphones to receive and pay loans. It has evolved into a mobile electronic payments system, becoming one of Kenya's largest financial services offerings. M-PESA handles more than 2 million transactions each day for the service's 10 million customers.

M-PESA is one of many examples of the rapid expansion of mobile commerce and payments. In addition to making transactions easier, mobile payments and commerce are quicker and cheaper to complete and provide rich data on customers' buying habits and preferences. The combination of these attributes is attracting a wide array of companies to the mobile commerce space, including Apple, Google, Facebook, Amazon, eBay and a host of venture-backed startups.

New Market Intelligence Benefits Financial Institutions and their Customers

Most financial institutions collect large amounts of data, but many grapple with storing, organizing and extracting value. While this has been challenging, it wasn't critical to competitive advantage. But over the next decade, this will change.

Data-savvy institutions will benefit by better understanding their customers and will be better prepared to adapt more quickly to marketplace changes. They will be able to spot new opportunities sooner and use their data to create new products and services. Data-savvy institutions will also benefit from providing valuable, data-driven insights to their customers. Put simply, financial institutions who become proficient at collecting, managing and analyzing customer data - with their permission - will gain competitive advantage.

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- The rise of tablets, smartphones and apps will create new opportunities for financial institutions to improve customer service, cut costs and create new fee-based products and services.
- The proliferation and demand for mobile devices provide customers anytime, anywhere access to their financial institutions.

- Financial institutions that can effectively unlock the value of data to deliver valuable insights to customers will gain significant operational and competitive advantages.

IV. REPUTATION AND RELATIONSHIPS RULE

Over the next decade, the financial service industry will shift its focus from transactions to customized value-added services. Customers will rely on technology solutions via smartphones and the ATM for some transaction relationships.

Through a combination of both virtual and brick-and-mortar branches, financial institutions will develop stronger, more personal relationships with businesses and consumers, helping them manage risk, build wealth, plan retirement and anticipate health care expenses. Banks and credit unions will need to offer global services with the feel of a local community to engage, retain and build customer trust. Customers will judge and share their success through social media tools.

Data Fuels Personalized Services and Relationships

The financial services industry was one of the first to provide personalized service to its customers. Then, ATMs became common in the U.S. in the 1970s and 1980s, and provided anytime, self-service transactions.

Over the next decade, the financial services industry will take much greater advantage of customer data and analytics to create one-to-one relationships with customers. Rather than seeing customers in broad segments, financial institutions will use analytical tools to understand individual customer behavior and hone in to address specific needs.

Customer and decision analytics, until recently only used in credit decisions, will become key marketing and customer service tools. By providing money-saving insights, peer analyses to help clients compare their performance to people or businesses like them, and personalized financial planning, financial institutions will clinch relationships and encourage customers to continue sharing data.

In addition to shifting the way financial institutions view their customers, data and analytics will also change how and where they interact with customers. More than ever, customers will demand value from their banking relationship. While the traditional branch will not go away, its role will continue evolving. With transactions becoming increasingly automated, branches will focus on establishing and growing customer relationships, providing advanced support and distributing advice and information.

Financial institutions will meet anytime and anywhere customer demand through developments in personalized online technologies. Online banking and the use of ATMs will continue expanding; the use of mobile banking will dramatically grow; and telepresence technologies, such as video conferencing, will augment traditional call center methods. Customer relationship management systems will automate many support tasks, providing a consistent and integrated customer experience. High-touch customer contact will not go away, but will evolve to become "high-touch, high-tech."

Relationships will be Local and Global

After five decades of relocating for jobs and pleasing employers – only to be laid off after cutting local ties to pursue economic gain – Americans are rediscovering the value of community. In growing numbers, they are establishing closer ties with friends, family and neighbors and investing in the places they live to make them better.

This renewed close-to-home focus creates new opportunities for community oriented banks. Consumers are increasingly interested in doing business with firms anchored in their communities, and small businesses – including mid-market firms – want to develop long-term relationships with local providers of financial services.

At the same time, relationships will evolve to span continents as small businesses develop global reach from their local marketplaces.

Thanks to the Internet and economic globalization, small and even personal businesses can now serve global markets and customers almost as easily as they serve their local customers.

Small businesses will expect their financial services provider to be their local portal to the global marketplace, delivering the products, services and information required for successful international transactions. If financial institutions can't provide what's needed, they'll need to partner with others to seamlessly deliver full-service solutions.

Reputation as the New Marketing Currency

The epic growth of online information and social networks allows customers to evaluate the value and performance of products, services and companies in an unprecedented way – and share their opinion with the world in minutes. This massive increase in information, connectivity, and corporate transparency makes a firm's social reputation the key driver of business success. Customers increasingly base purchasing decisions more on a company's reputation than on mere product features.

Traditional marketing and marketing claims will lose their effectiveness. Successful financial institutions will actively build and manage their social reputations, driving success by delivering on commitments, building strong relationships and providing value to their customers.

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- The role of financial institutions will change from "owning" the primary relationship secured by loans and deposits to being part of a team of expert service providers with the customer deciding who owns the primary relationship.
- Financial institutions will actively build and manage their social reputations by active participation in on and offline social activities.
- Community-based financial institutions will build upon their local knowledge and connections to create trusted relationships with influential business and community leaders.

CONCLUSION

The next decade will be a period of rapid change in the financial services industry. Increased regulatory pressures and competition from new and existing competitors will change the industry playing field. Technology will drive innovation and create new efficiencies and ways to interact with customers and business models. Demographic shifts and the growth of small businesses will create opportunities for financial institutions to develop strong, personal relationships with customers.

While the outlook presents some risk and uncertainty, it also reveals tremendous opportunity for players who are agile and responsive to changing customer needs. Customers will demand both virtual and in-person service, and their expectations for seamless delivery and quality will be equal across all customer connection points.

Financial institutions that are data-smart and understand how to effectively use technology will have the advantage.

Over the coming decade, customers will be more diverse and demand more useful insights and information. Their lives will be increasingly complex, and risk management for personal and small business finances, health and lifestyle planning will fall heavily on individuals' shoulders. By providing services that help customers manage their lives, financial institutions have an opportunity to build trust and develop more sustainable – and profitable – relationships with their customers.

INTUIT
72%
Shopper data:
21
SYNC CLOUD
IDENTITY CONFIRMED
OK
SALES