A First Data White Paper

Meeting the Needs of the New Financial Consumer: A Snapshot of Six Customer Segments

By First Data and Market Strategies International

Introduction

Consumers have a lot of options when choosing a bank or credit union. To be successful in today's highly competitive environment, financial institutions must creatively and innovatively meet their customers' needs and expectations. However, consumers are not a homogenous group—and attitudes, behaviors and expectations related to desired products, communication tools and service vary dramatically.

Even more challenging for financial institutions, consumers are rapidly evolving in their use of technology. As consumers increasingly use technology in their day-to-day lives, many expect the convenience of high-tech tools from their banks and other financial institutions. At the same time, a persistently weak economy, the widespread erosion of savings and investments, and the lending crisis have fundamentally altered many consumers' mindsets. Especially among baby boomers—the backbone of financial industry growth over the last 25 years—confidence in financial institutions and a willingness to engage in carefree spending appear to be things of the past.

So, how can financial institutions best meet the needs of a diverse and evolving consumer base? To find out, First Data and Market Strategies International jointly conducted an online survey of 2,000 U.S. consumers. The "New Consumer and Financial Behavior" study looked at consumers' attitudes, behaviors, desires and technology adoption. The results revealed six distinct consumer segments, providing financial institutions with valuable insights into opportunities and challenges associated with different types of customers.

By understanding the needs and expectations of different consumers, financial institutions can:

- Determine which types of consumers are most valuable.
- Target products, technology and tools at specific customer groups.
- Improve customer retention through targeted customer loyalty programs.
- Better service customers by meeting their needs and expectations for products, services, communication and technology.

This white paper is the first in a series of four based on results of the "New Consumer and Financial Behavior" study.

About the Study

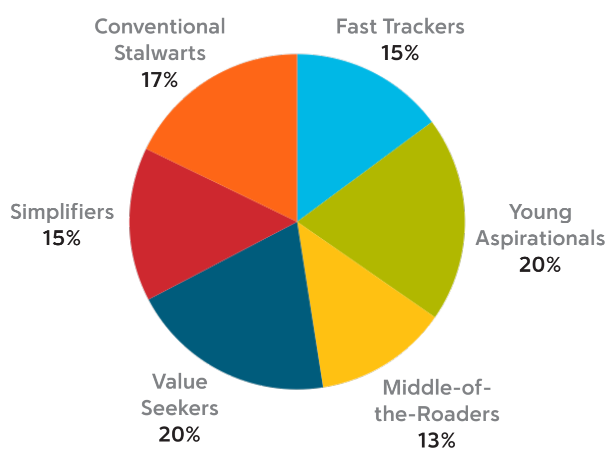
The "New Consumer and Financial Behavior" study was conducted jointly by First Data and Market Strategies International, a market research consultancy. During March 2011, 2,000 banked consumers (who have at least one account at a financial institution) completed an online survey of their attitudes, behaviors 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. 13.

Who Is The "New Consumer"?

First Data and Market Strategies segmented the banked consumer population into six segments. The segmentation approach went beyond more simplistic demographic or behavioral clustering, and grouped customers into segments based on a comprehensive analysis of values, behaviors and attitudes, as well as demographic information, to show what makes each type of customer unique. Rather than implementing a one-size-fits-all approach, financial institutions can respond to the preferences of the different consumer groups that comprise their customer base. They can also adapt their customer acquisition tactics to the behaviors and demographics of individual segments, improving the effectiveness of their marketing activities.

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, are 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, traditional-minded consumers who prefer to pay by cash and check, visit their bank often and use technology lightly

Each segment comprises 13 percent to 20 percent of the total U.S. banked consumer population:



Implications: Recognize That Different Customers Have Different Needs

By recognizing the differences between customer segments, financial institutions can devise communication plans and marketing programs that are significantly more relevant to each customer and prospect. Institutions can also use this segmentation insight to prioritize their marketing efforts by determining which groups are the most valuable to them in both the short-term and long-term. The following are potential marketing and communication tactics that take into consideration the differences between the segments:

Consumer segments	Implications for financial institutions
Fast Trackers	• Communicate and provide customer service through email and mobile • Provide guidance with investments and financial options • Offer rewards and give recognition for use • Promote online and mobile banking, bill pay tools and other mobile products such as the mobile wallet
Young Aspirationals	• Offer products and services that recognize loyalty, such as targeted, local point-of-sale discounts • Offer guidance in managing finances and building credit • Promote online banking services, particularly bill pay
Middle-of-the-Roaders	• Offer online alerts to help manage money • Provide tips in money management • Promote personal financial management (PFM) tools
Value Seekers	• Provide products that offer rewards • Offer investment tools, especially around retirement portfolio • Bundle products/services to gain a larger share of wallet
Simplifiers	• Promote and help set up online bill pay • Promote migration from paper to eStatement • Be honest—talk about security
Conventional Stalwarts	• Explain impacts of regulation in terms of additional fees • Offer quarterly statements to reduce costs and improve efficiency

The rest of this paper will provide more details on each consumer segment in order to assist financial institutions with developing more precisely targeted acquisition and retention strategies.

Fast Trackers: Younger And Technologically Savvy

The majority of Fast Trackers are between the ages of 18 and 34, a group collectively known as Generation Y or the Millennials. They tend to be married, and 38 percent have children under age 17. Fast Trackers are high earners, with almost half making more than $100,000 annually. While they make a good income, about one-third prefer spending to saving.

Technology is an area on which Fast Trackers aren't afraid to spend money. Eighty-seven percent own a laptop/notebook and almost half own a netbook or tablet computer—showing they like their technology "on the go." Fast Trackers enjoy using and sharing the "latest gadgets." The vast majority define themselves as early adopters of new technology, and most also enjoy sharing their new gadgets with family, friends and co-workers.

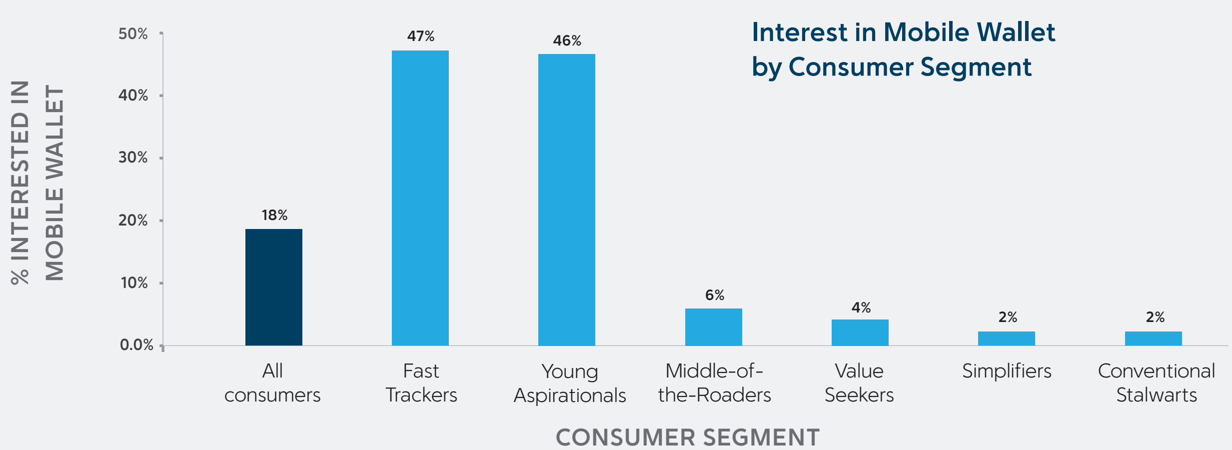
Online banking is second nature to Fast Trackers: 100 percent say they use both online and mobile banking. This segment of tech-savvy consumers also makes above-average use of other online features such as online bill pay (from both the financial institutions' and billers' websites), account alerts, budgeting tools and financial management tools.

One hundred percent of Fast Trackers own a smartphone or conventional mobile phone, so it's no surprise that one in two is also interested in the concept of the mobile wallet (paying for goods and services via a mobile phone). Like mobile phones, social media is an integral part of the Fast Tracker's life, and 20 percent would be interested in transferring money using Facebook, Twitter or other social media applications. PayPal is also heavily used by this consumer segment.

Almost three-quarters of Fast Trackers bank at a national financial institution. These younger and tech-savvy consumers also stand out for their heavy use of debit cards (90 percent), which three-fifths of Fast Trackers say they'd be "lost without." Fast Trackers also frequently use ATMs, with nearly three-quarters visiting an ATM once a week or more often.

FAST TRACKERS, YOUNG ASPIRATIONALS MOST INTERESTED IN MOBILE WALLET

Fewer than one in five U.S. consumers is intrigued by the concept of paying for goods and services using his or her mobile phone. As shown below, Fast Trackers and Young Aspirationals are far more likely to try this new technology. Data indicate these two consumer groups should be initial targets for marketing efforts focused on the mobile wallet. However, other consumer segments should not be ignored, as they may be interested in the mobile wallet as it becomes more mainstream.



Young Aspirationals: Budget-Conscious, Need Help With Finances

Young Aspirationals share some characteristics with Fast Trackers: nearly half are in the 18 to 34 year-old age group, and 38 percent have children under age 17. But, in many respects, they look quite a bit different.

In contrast to the high earners in the Fast Trackers segment, Young Aspirationals are still "getting on their feet" financially. Almost one-third admit they could use help with their finances, and 11 percent still get help from their parents with their financial responsibilities. One way some are taking steps to better control their finances and budgeting is by using PFM tools.

Many Young Aspirationals grew up with credit cards readily available, which may explain why half use them regularly and only 30 percent avoid credit cards altogether. Just under a quarter of this segment say that the banking crisis has reduced their credit card usage.

Like Fast Trackers, Young Aspirationals like technology: 79 percent use a laptop/notebook computer and 71 percent own a smartphone or conventional mobile phone. While they are not quite as likely as Fast Trackers to be early adopters of technology in general, they are almost equally intrigued by the concept of the mobile wallet: 46 percent of Young Aspirationals would find the ability to pay for goods and services from their mobile phone highly appealing.

In addition, Young Aspirationals are "always online," which is likely why 92 percent of this consumer segment use web-based banking. Somewhat surprisingly however, just 10 percent of Young Aspirationals currently use mobile banking services.

Sixty-five percent of Young Aspirationals bank at a national institution. However, they are far from loyal. Members of this group are the most likely to switch banks if they feel their needs can be served better elsewhere, and 20 percent changed banks in the past five years.

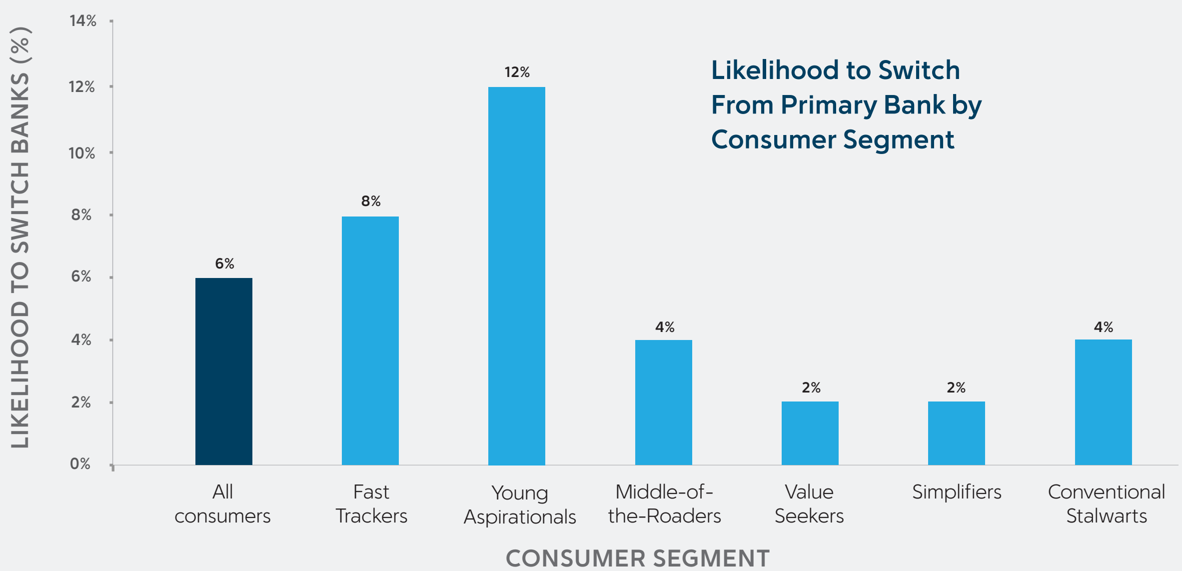
YOUNG ASPIRATIONALS MOST LIKELY TO SWITCH BANKS

Overall, just 6 percent of consumers are highly likely to switch banks. This number doubles to 12 percent for Young Aspirationals. Fast Trackers are also significantly more likely to switch compared with other consumer segments.

Banks and other financial institutions can use this information to develop customer retention programs by promoting services, products and technology that best resonate with specific consumers.

Across consumer segments, better rates and lower fees are primary reasons for switching, so banks can use this information to promote special rates and fees for loyal customers, especially among the budget-conscious Young Aspirationals group. Different customer retention tactics may appeal to each segment, so financial institutions should tailor their communications accordingly. For example, for tech-savvy Fast Trackers, banks should promote their conveniently-located ATMs, online banking, mobile banking and the opportunity to receive communication via high-tech channels. Knowing that Value Seekers place high emphasis on rewards, banks should make sure that consumers in this segment are maximizing their reward-earning potential and let them know if they are not.

The benefits of creating loyal customers through targeted communication and offers go beyond stemming customer defection. Loyal customers are more likely to use additional products and services and recommend their financial institution to family and friends.



Middle-Of-The-Roaders: Moderate Income, Like To Spend

Middle-of-the-Roaders are not young or old. They are generally neither rich nor poor. As their name suggests, this consumer segment falls right in the middle in terms of attitudes, behaviors and usage of technology and banking products.

Just under half are between the ages of 35 and 54, and 56 percent make less than $60,000 annually. About 40 percent of Middle-of-the-Roaders have a personal loan from their primary bank, which is most likely a national bank. However, they don't like owing money; paying down debt is a goal for over two-thirds of this consumer segment.

Financial management is a bit of a challenge for Middle-of-the-Roaders. Almost one-third "could really use some help getting a handle on [their] finances," while just 9 percent feel financially stable. Part of the issue may be that many classify themselves as "more of a spender than a saver," despite their moderate income level. While they need help with finances, 86 percent currently are not using PFM tools.

Middle-of-the-Roaders skew heavily to using debit cards instead of credit cards. They are comfortable with online banking, with three-quarters accessing their accounts from home. Almost half of this consumer segment prefers to wait to use new technology until it's established, which is likely why only 6 percent are intrigued by the mobile wallet concept. Likewise, Middle-of-the-Roaders don't use their mobile phones for banking, preferring more traditional methods.

Value Seekers: Financially Stable, Rewards-Motivated

As their name suggests, Value Seekers are savvy consumers whose decisions are heavily driven by value. This group tends to have greater discretionary income: about one-third make more than $100,000 annually, and 42 percent have paid off their home mortgage.

Value Seekers tend to be older; more than half are age 55 or above. They are also more likely than consumers in other segments to have never been married and to not have children under age 17 in the home.

One of the primary motivators in credit card usage for Value Seekers is earning rewards. Ninety-three percent use credit cards and pay off the balance monthly, and 88 percent say they use credit cards whenever possible to maximize rewards or points. Nearly half say it's important for them to earn rewards from their bank for being loyal customers.

More than three-quarters of Value Seekers say they do a "better job than most" of living within their means. Because they are financially stable, the vast majority of Value Seekers does not incur banking fees. And, just 5 percent feel they need help managing their finances. They are well-prepared financially for retirement.

Value Seekers have a wide variety of banking products. Although most are highly satisfied with their primary bank, they tend to have their IRAs, credit cards, life insurance and savings/money market accounts with other providers.

Most Value Seekers (91 percent) use online banking, and about three-fifths pay bills online using banks' and billers' websites. Consumers in this segment prefer to wait until technology is established before using it; this explains why just 4 percent find the mobile wallet concept appealing.

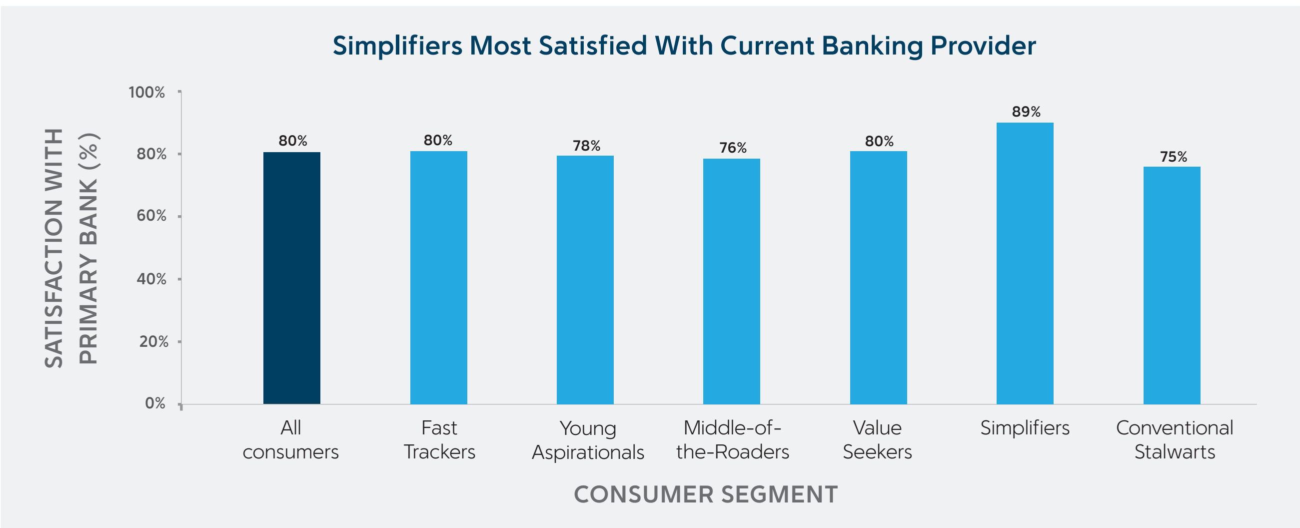
Simplifiers: Simple Banking Needs, Prefer Traditional Tools

Simplifiers want ease, not complication, and this includes banking. Older and with lower incomes (half make less than $35,000 per year), Simplifiers are not in a rush to try new technology. Forty percent prefer to wait until a new technology is established, and another 21 percent like to wait until a standard has been set for a new technology. Accordingly, only 2 percent of Simplifiers are intrigued by the mobile wallet.

While more than two-thirds say they do a better job than most of living within their means, just 30 percent feel financially stable. However, they make an effort to stay on top of their finances: most actively manage their cash flow to keep account balances as high as possible. Members of this group feel they can handle their finances on their own; just 8 percent say they'd appreciate help in this area.

Despite their tendency to prefer traditional tools, the vast majority of Simplifiers utilize online banking, with almost half using online bill payment from their institution's website. When it comes to forms of payment, Simplifiers prefer debit cards to credit cards and perceive them to be more secure.

Eighty-nine percent of Simplifiers are highly satisfied with their financial institution, which is a local bank or credit union for about one-third of them.



Conventional Stalwarts: Simple Needs, Prefer Traditional Methods

Slightly more than half of Conventional Stalwarts are 55 or older, and a little over a third are retired. Accordingly, almost half make less than $35,000 annually, and just 21 percent have children under age 17 at home.

Conventional Stalwarts are far more likely than the overall U.S. banking population to use traditional tools such as paper account statements and checks. Their banking needs are simple, and consumers in this group prefer to go to the bank in person, rather than accessing their financial institution online. Perhaps because they feel more connected to a local institution, almost one-third of the consumers in this segment bank at a local bank or credit union. More than half of Conventional Stalwarts say they can handle most transactions using paper checks and cash. Since their banking needs are so basic, this group has a below-average propensity to check their account balance regularly.

As might be expected, this group has below-average usage of online bill payments, with just half taking advantage of it and only 13 percent paying bills online from their institution's website. In fact, 42 percent of Conventional Stalwarts never use the website and one-third never use an ATM. However, it's not as though members of this group don't go online at all: half say they use PayPal. This statistic indicates that PayPal could be a competitive threat if a consumer segment with such a traditional mindset is comfortable using it.

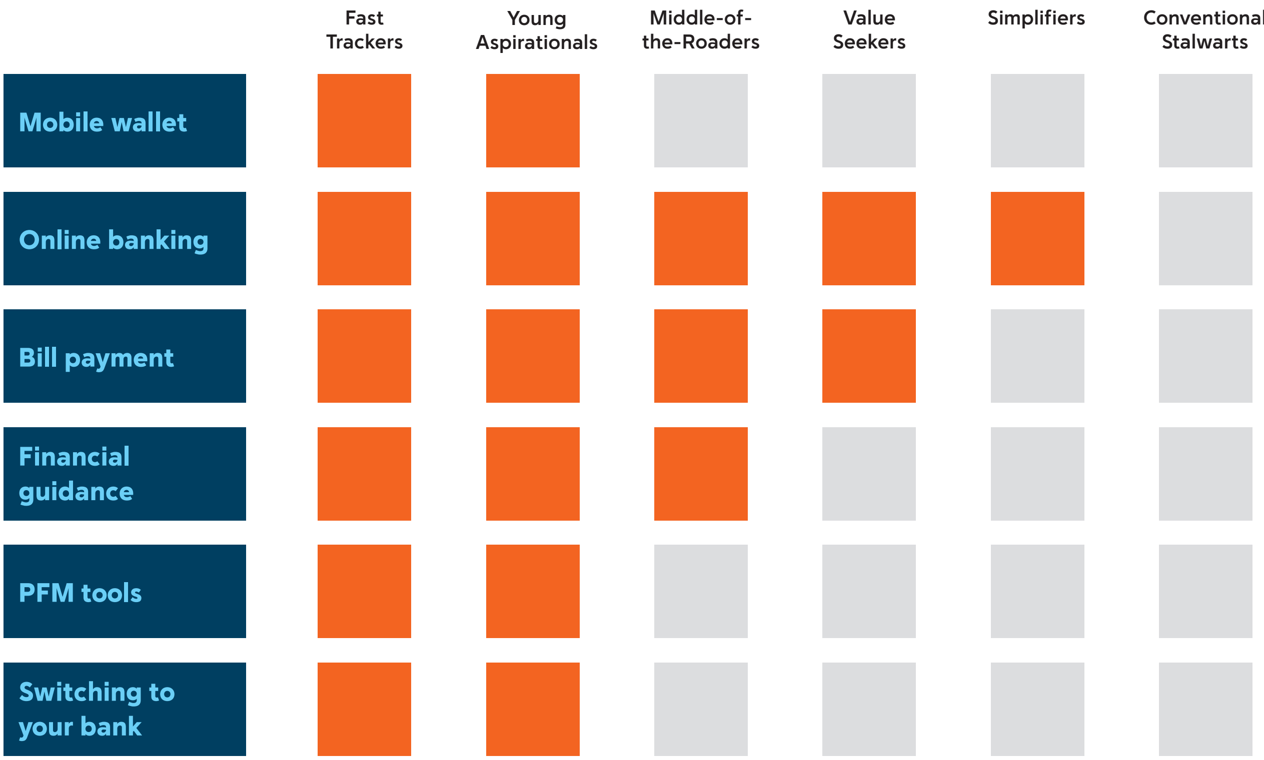
Just 12 percent of Conventional Stalwarts claim to be early adopters of technology, which is why only 2 percent find the mobile wallet concept appealing.

PREFERRED COMMUNICATION CHANNELS

Despite their differences in attitudes, beliefs and values, all consumer segments except Fast Trackers would prefer to handle urgent and non-urgent issues in person at a bank branch. When it comes to notifications about new products or services, email is the preferred channel for all but Conventional Stalwarts, who prefer a message on their bank statement.

Key Opportunity Areas

Based on the results from the "new consumer and financial behavior" study, financial institutions should target specific products and services to certain consumer groups as shown below:



Conclusion: Use Consumer Segmentation Data for Competitive Edge

By understanding that specific consumer segments have unique attitudes, behaviors and expectations, financial institutions can build stronger customer relationships and attract valuable new business.

To be successful, institutions must realize they can't "be everything to everybody." They need to determine which consumer segments are most valuable to them, and how to best attract and retain them. For example, many institutions might determine that the upwardly mobile, tech-savvy Fast Trackers are a desirable consumer group. To attract new Fast Trackers, banks would be wise to promote mobile banking, convenience of ATMs, high-tech communication channels and other products and services of interest. And to keep them from switching to another bank, financial institutions should continue to make Fast Trackers aware of tech-related products and services, as well as those that make their busy lives more convenient. On the other end of the spectrum, some banks may need to decide how much they want to invest in attracting new customers in the Conventional Stalwarts category, as their up-sell opportunity may be limited.

The "New Consumer and Financial Behavior" study provides banks and other financial institutions with valuable insights into how to remain competitive by:

- Creating lifestyle-based products that better meet consumers' needs.
- Developing customer loyalty programs that improve retention and help financial institutions better serve their customers.
- Striking the right balance between technology and personal relationships.
- Adding value by encouraging the use of convenient tools like email or text alerts and online statements instead of paper.
- Promoting the benefit of online bill payment through the bank's website.

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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 age 18 and older from March 17 to 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.

