Bridging the Digital Adoption Gap with a Customer-Centric Focus

Broadridge®

EXECUTIVE SUMMARY

Digital capabilities have significantly impacted the ways in which we perform everyday tasks and communicate with each other. Like other industries, the financial services industry has leveraged digital technologies to create new capabilities that change the ways consumers access information and take action.

Despite these efforts, most service-related industries, including financial services, have not met their goals or expectations in driving adoption of digital services, as measured by frequent active customer interactions. One exception has been the Retail Banking segment, which has managed to achieve success under two key metrics: 1) customers credentialed to use digital services; and 2) frequent active users.

Retail Banking has achieved success by enhancing consumer experiences delivered via websites and apps and supported by digital payment and deposit capabilities – often via Automated Clearing House (ACH) transactions. Leveraging this success, retail banks now have an opportunity to go beyond electronic payments and drive the next phase of adoption, **digital communications**.

Through effective digital communications, companies can convert bills, statements, notices and other physical communications into opportunities to enhance their relationships with consumers, while at the same time driving paper suppression. Much like digital payments and deposits, digital communications must provide consumers with an enhanced consumer experience, superior to the physical experience they are replacing.

Research shows that delivery of all communications to a centralized digital location of the consumers' choosing – essentially a "Go-to-Them" business model – is what most consumers want. For banks, this represents a significant opportunity as about half of consumers have suggested they would prefer this model to be bank-provided.

"Go-To-Them" vs. "Come-To-Me"

The "Go-to-Them" business model is qualitatively different than the "Come-to-Me" model adopted by most of the financial services industry to drive consumers and digital interactions to business-to-consumer (b2c) websites.

To date, there have been valid reasons behind financial companies' adoption of the "Come-to-Me" model. While this model has been successful in establishing online accounts, it has not always effectively promoted frequent active use of digital communications. In contrast, the "Go-to-Them" model, a consumer-to-business (c2b) approach, allows consumers to access a variety of monthly eBills, eStatements and ePayment options from one preferred source.

The "Go-to-Them" business model can target digital offers and services to specific customer segments based on habits and preferences expressed by each customer. It also ties in with a big-picture trend, The Age of the Customer, by helping financial firms create multidimensional views of customers and predict their needs and actions.

Shifting to a c2b approach poses challenges for financial firms. Successful firms will leverage the strategic advice, technological processes and operational support of experienced partners to migrate to the next phase of digital adoption.

The digital communications opportunity in financial services

As digital communications become the "new normal," financial services companies are strategically positioned to capitalize. The demographics of retail financial services customers align with digital adoption trends. For example:

- 96% of households with incomes over $75,000 are online.
- 85% of target financial clients (ages 45 to 64) self identify as "early" or "mainstream" adopters of technology.
- 56% of U.S. adults with household incomes over $75,000 own a tablet device.
- 68% of U.S. adults with household incomes over $75,000 have a smartphone.

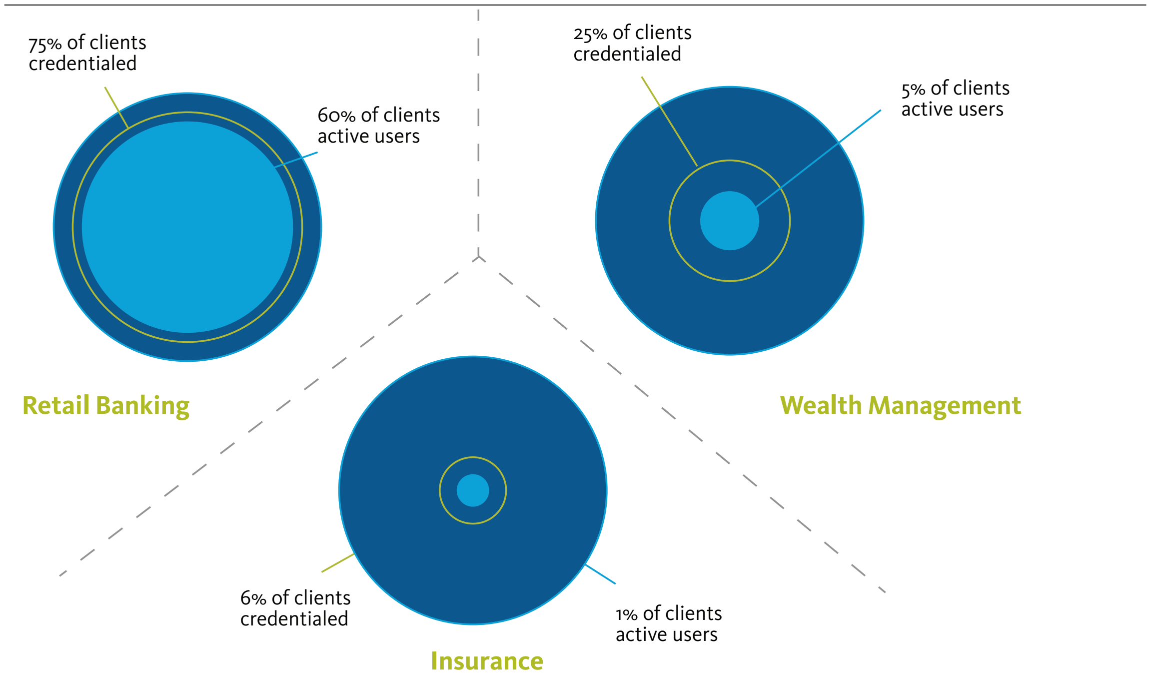
Financial customers are "wired and ready" to opt in for e-delivery and interact with financial websites. The timely, constantly changing nature of financial information creates compelling reasons for going online to access data and documents. Other drivers include: 1) the need for data and document security; 2) a growing "green consciousness," and 3) consumers' desire to coordinate multiple financial relationships.

However, digital trends and drivers have not yet bridged the sizeable gap between the potential and reality. This gap can be measured by comparing the digital reach of financial service segments into households with frequent active users of digital information or e-document delivery services.

Measuring the digital adoption gap

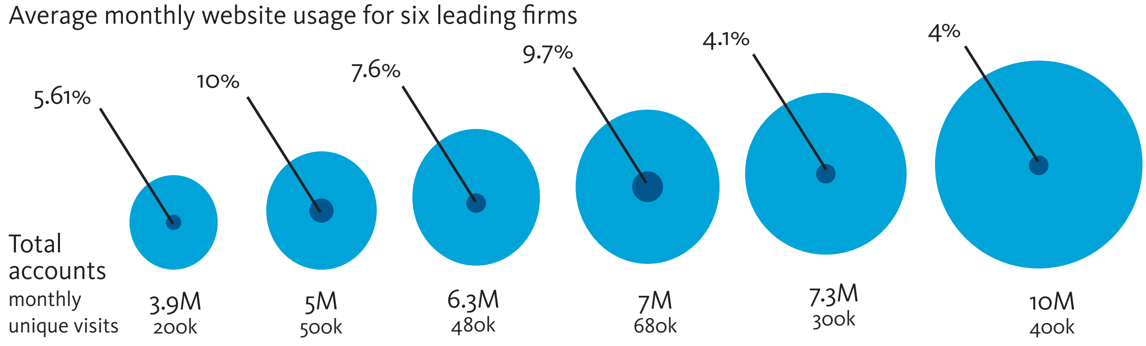
Financial services customers become "credentialed" for digital when they create an online account at a firm's website or through a mobile app. The credentialing process is the first step in developing digital relationships. However, the real test of adoption is **frequent active usage** of a website or digital service. As shown in Figure 1 below, Broadridge has documented significant adoption success in only one segment of financial services – Retail Banking – where 75% of customers are credentialed and 60% are frequent active users. In the Wealth Management and Insurance segments, both credentialed and frequent active user rates are far lower.

Figure 1 – Digital Adoption Rates in Three Financial Services Segments



We also can size the digital adoption gap by comparing these segments with six leading financial services companies that have 100% of their clients credentialed. Based on statistics compiled by Broadridge Data Analysis and Quantcast, for the sample group there are: 1) 2.6 million total U.S. accounts on average per firm; and 2) about 600,000 unique monthly visits on average per firm. The ratios of active frequent users to credentialed accounts range from 4% to 10% as shown in Figure 2 below.

Figure 2 – Digital Adoption for Six Leading Financial Firms



Source: Broadridge Data Analysis and Quantcast

This analysis shows that the digital adoption gap remains wide in all financial services sectors except Retail Banking, and this continues to create a drag on bottom-line profitability. It also costs financial companies opportunities to build stronger, deeper relationships with existing and new customers.

Closing the gap: Evaluating success

How can the financial services industry and individual companies close the adoption gap? Broadridge believes an answer lies in looking more closely at the Retail Banking sector – specifically, its successful promotion of recurring Automated Clearing House (ACH) deposits and payments as a value-added customer service. In addition to increasing convenience for bank customers, ACH transfers reduce the costs of processing millions of paper-based payments per year, and have become a driver of increased industry profitability. Even more significantly, they suggest a new model that meets customers "wherever they are online," rather than requiring them to visit a financial firm's business-to-consumer (b2c) website.

The banking sector's experience

In recent decades, as the Internet and digital habits have experienced steady growth, ACH deposits and payments have become a permanent fixture for the banking system and millions of its customers:

- ACH processes 21 billion transactions per year with a total value of $3 trillion.[1]
- Consumers pay 500 million bills each month with direct payment via ACH.[2]
- 97% of people who use direct deposit via ACH are very satisfied.[3]

Once an ACH deposit or payment has been authorized, it can remain effective for years, putting inertia on the side of digital adoption. So, how did millions of ACH authorizations occur?

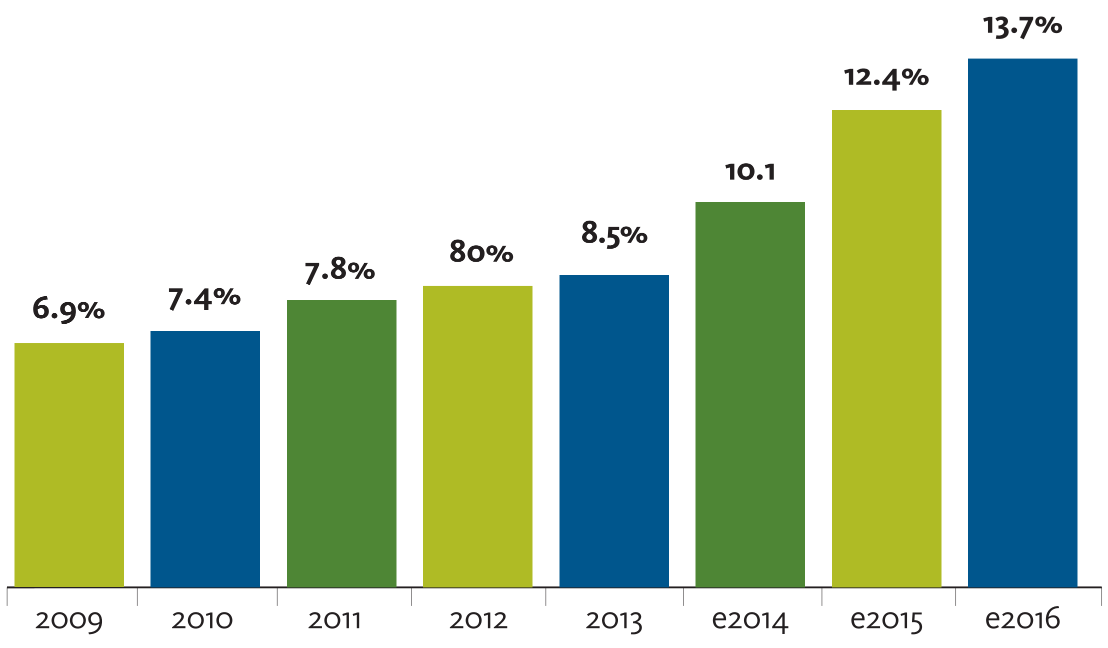
Retail Banks did not require customers to "Come-to-Me" – i.e., visit the bank's own business-to-consumer (b2c) website to sign up. Electric utilities offered sign-up facilities for bill payment. Mutual funds offered ACH sign-up for paying out distributions. Employers stuffed paychecks with ads that encouraged electronic deposits of salaries. State and local governments encouraged sign-up for depositing estimated tax payments and paying tax refunds.

In short, the banking industry machinery that drove ACH was willing to meet customers **wherever they were** to facilitate electronic bill payment.

Retail Banking: Taking the next step

While ACH has helped Retail Banking create a runway for consumer acceptance of electronic payments, it has not yet fulfilled the promise of a new model that goes beyond Come-to-Me. Specifically, bill payment services alone have not achieved the objective of creating electronic relationships that deliver both eBills and eStatements, while suppressing paper. According to Aite Group, 59% of households that receive eBills are still choosing duplicate paper copies. As shown in Figure 3 below, the share of eBills sent as a percentage of total U.S. electronic bill payments is rising steadily – from 6.9% in 2009 to an estimated 13.7% in 2016. However, this also means that millions of consumers remain reluctant to suppress paper long after they have embraced ACH or other ePayment systems.

Figure 3 – eBills as a Percentage of U.S. ePayments (2009 to 2016 Estimated)

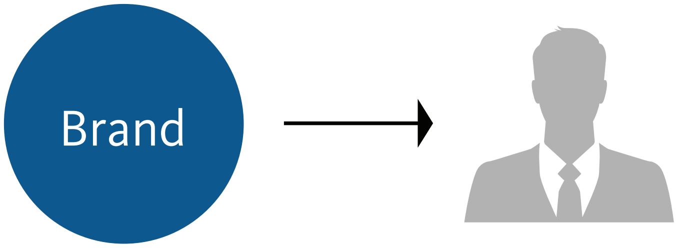


Source: Aite Group

Weaknesses of the b2c model

Most of the financial services industry continues to follow a b2c model, in essence telling their clients to "Come to Me," as shown in Figure 4.

Figure 4 – The "Come-to-Me" b2c Model



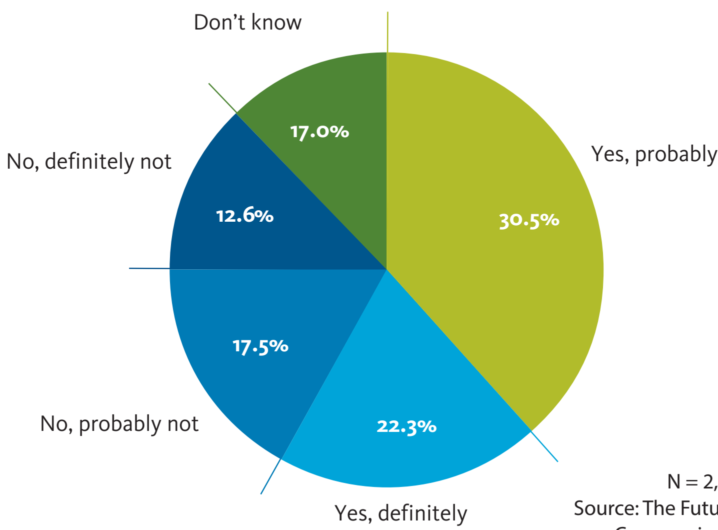
Financial services companies have valid business reasons for driving consumers to their own websites, including:

- A desire to build traffic on the website
- Increased exposure for website marketing messages
- Control over the consumer's experience and online content, to maintain brand consistency
- Security concerns over unauthorized use of financial accounts and sensitive data
- Increased confidence in assuring regulatory compliance

Unfortunately, the b2c model does not always connect with customers and optimally promote digital adoption. Even when it succeeds in establishing online accounts ("credentials"), it may not effectively promote frequent active use.

Among all U.S. households that pay bills electronically at any provider's website, the median number of website visits for this purpose is 6.0 per month. Yet, more than half of all households say they would "definitely" or "probably" prefer to access multiple online accounts through **a single electronic location,** as shown in Figure 5 below.

Figure 5 – Preference for Accessing Business Accounts Electronically



N = 2,025 consumers age 18+ in the US
Source: The Future of Multi-Channel Transactional Communications in the U.S., InfoTrends, 2013

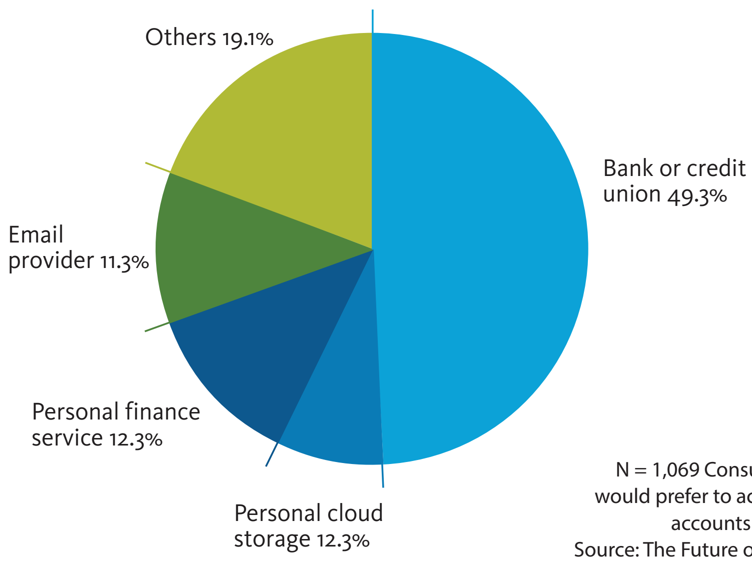
In the same survey, the three greatest perceived advantages of consolidating multiple accounts through a single electronic location are:[4]

- Easier to manage all services (31.7%)
- Reduce the number of usernames and passwords (28.6%)
- Save time (28.1%)

Meeting customers wherever they are

An alternative to the Come-to-Me model is to meet customers **wherever they are** – whether it is through a social media service (e.g., Facebook), bank website, cloud storage option, personal finance site or digital mailbox service. Figure 6 documents that almost half of U.S. households would choose to consolidate accounts through a bank or credit union website, given the choice.

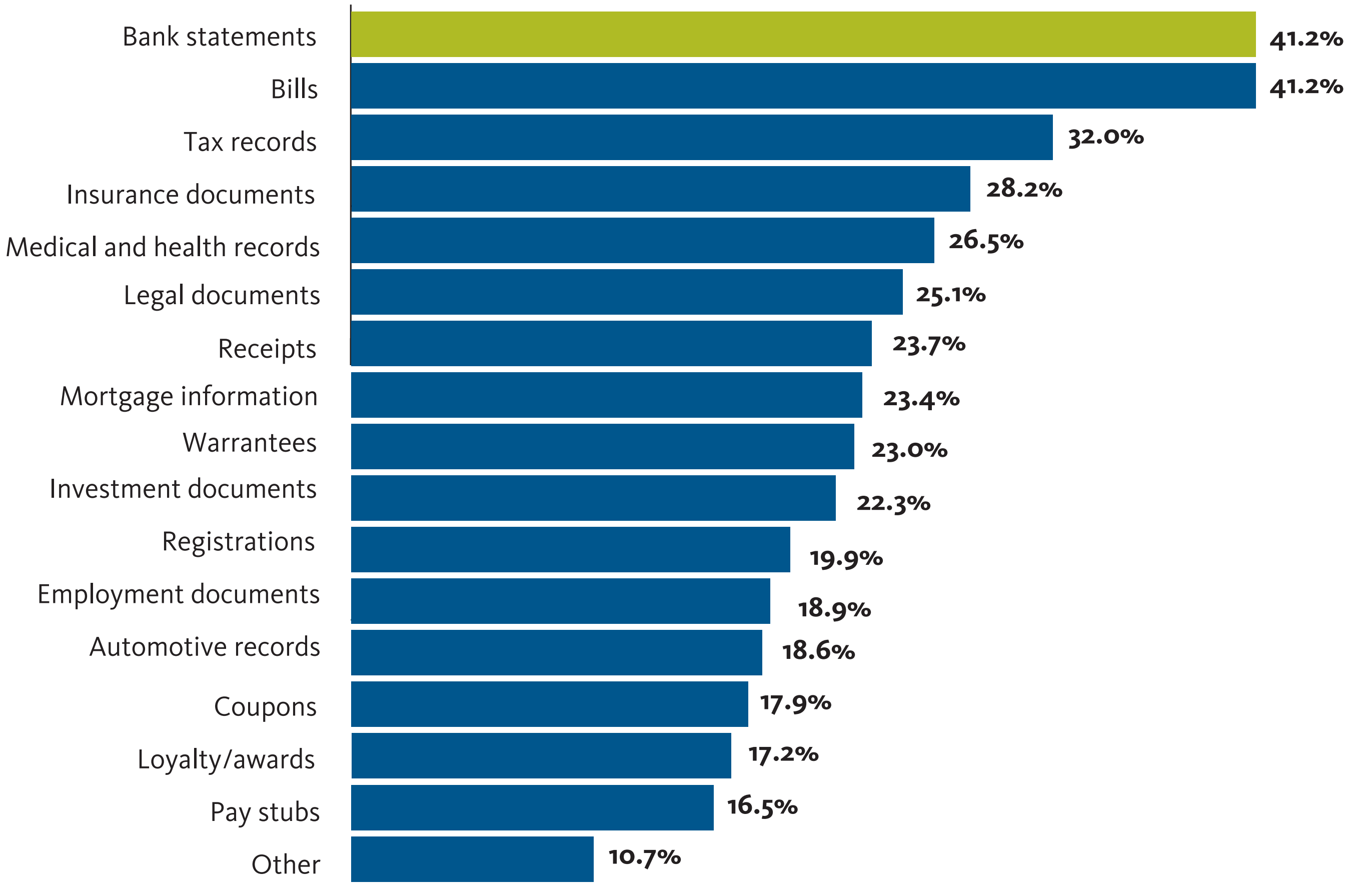
Figure 6 – Preferred Consolidation Site



N = 1,069 Consumers age 18+ in the U.S. that would prefer to access multiple online business accounts in a single electronic location
Source: The Future of Multi-Channel Transactional Communications in the U.S., InfoTrends, 2013

Among the choices shown in Figure 6, personal cloud storage is gaining momentum at the fastest rate, creating new delivery options for banks. In fact, among the 231 customers of full-service financial firms surveyed in September of 2014, personal cloud service usage (60%) far surpasses e-delivery/paper suppression (33%) – despite limited promotion or facilitation of cloud service to date.[5] Additionally, more than 40% of consumers are already using the cloud to save and access bank statements and bills. Financial records of some type are the top four cloud storage choices of adults (18+) who have adopted the cloud, according to survey results shown in Figure 7.

Figure 7 – What Adults Who Use the Cloud Store in the Cloud



*Multiple Response Permitted

N = 291 Consumers age 18+ in the US that use a personal cloud service
Source: The Future of Multi-Channel Transactional Communications in the U.S., InfoTrends, 2013

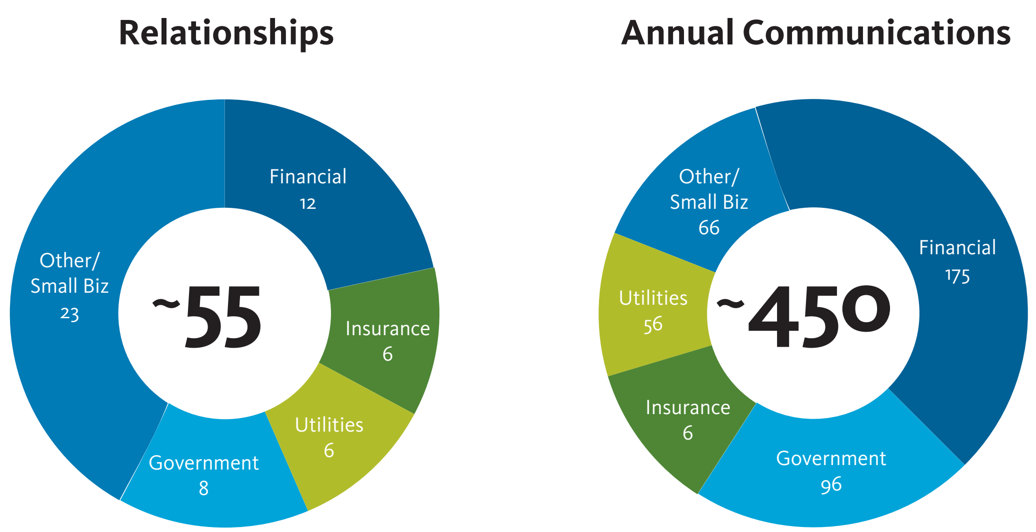
The age of the customer

Consolidation and cloud storage also fit into a new marketing paradigm called The Age of the Customer. According to Forrester Research: "After huge technology investments, companies are realizing that the Internet cloud provides all of the computing resources they need, just as they need them...The only source of competitive advantage is the one that can survive technology-fueled disruption – an obsession with understanding, connecting with and serving customers."[6]

Awareness of this paradigm can help retail banks speed adoption beyond ACH and increase the profitability of digital communications initiatives. In addition to cost-savings from eliminating print, paper and postage, financial services firms can capture what Forrester calls "actionable customer intelligence." This concept uses data to target digital offers and services to specific customer segments based on habits, preferences and needs expressed. Over time, it can help financial services firms create a "multidimensional view of the customer to predict next actions," Forrester believes.[7]

Other research suggests a unique opportunity for the financial services industry: By allowing customers to access data through channels of their choosing, financial services firms help households consolidate information distributed through an ever-growing number of financial relationships. The digital research/consulting firm InfoTrends has documented that an average U.S. household has about 55 vendor relationships across industries, of which 18 are with financial or insurance companies. More than 200 communications per year are sent or received per household with these companies, as shown in Figure 8.

Figure 8 – Multiple Relationships Expand Complexity



Source: The Future of Multi-Channel Transactional Communications in the U.S., InfoTrends, 2013

In the b2c model, keeping track of so many relationships and communications requires a variety of URLs, log-ins and passwords. There is a significant administrative barrier to adoption, which translates into increased complexity and time commitment. The same research shows that for many consumers to adopt digital communications, they must be able to access at least 60% of their content through a channel of their choosing. This is the key to bridging the adoption gap with a customer-centric focus.

Figure 9 – A Transformation in Models

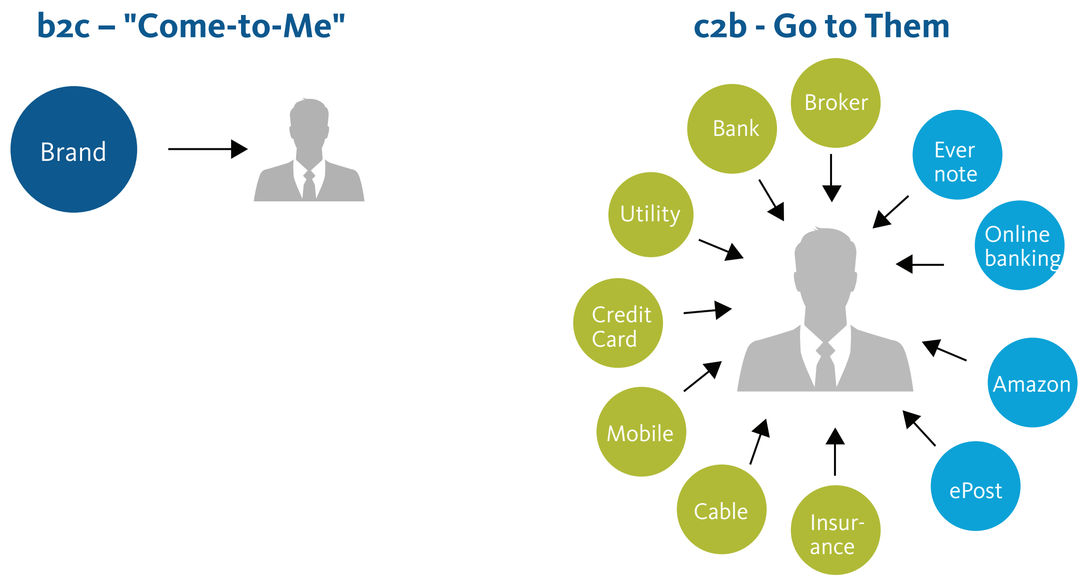


Figure 9 diagrams this transformation in thinking. In the "Come-to-Me" model, the consumer must go to the financial firm's site for digital transactions or communications. In a consumer-to-business (c2b) model, a firm makes its communications accessible through whatever site or cloud storage option is most familiar and comfortable to the consumer.

The Age of the Customer is converging with the emergence of a new "Go-to-Them" b2c model, and this will transform virtually all industries, including financial services. Banks have a unique opportunity to capitalize on this convergence because almost half of consumers say they would prefer their "Go-to-Them" solution to be bank-provided. In other words, they would like to expand relationships that are already working well for digital deposits and payments, and to consolidate and simplify many other types of communications and transactions.

Adapting the new model for financial industry realities

The strategic advantage of a "Go-to-Them" model is its ability to empower customers by delivering a superior experience, through the digital channels of each customer's choice. The model also simplifies e-delivery adoption and account management by allowing customers to define and update their preferences through those same channels.

Changing the model requires financial firms to accept some tradeoffs. Just as banks sacrificed website traffic to make ACH authorizations ubiquitous, the "Go-to-Them" model increases challenges for keeping company websites interesting and interactive. Financial companies should carefully consider how a new model will meet these important objectives:

- **Controlling brand and message** – Whenever electronic communications "Go-to-Them" through diverse channels, consumers should be able to recognize the source company and its core messages. Your brand should not get lost in the shuffle.
- **Measuring effectiveness** – To maximize the power of digital communications, you must capture usage data and then evaluate results against metrics. To measure effectiveness for your internal constituents you will need access to analytics and reports.
- **Assuring data security and regulatory compliance** – The b2c model has given financial firms a high degree of control over data security, as well as the ability to document regulatory compliance. The transition to a new model must maintain the same standard by adopting technology solutions that meet financial industry requirements and address security-related realities.

Summary

The financial services industry has embraced the benefits of adopting digital communications initiatives, and it has been effective in: 1) driving traffic to company websites; 2) making customers aware of e-document options; and 3) promoting sign-ups or "credentials." Retail Banking has been by far the most successful industry segment in achieving active frequent users of electronic services. In fact, the broad and enthusiastic consumer adoption of ACH for deposits and payments has demonstrated why a new "Go-to-Them" model is a key to bridging the adoption gap. It also has created a runway for banks to develop 100% electronic relationships, promote personal cloud storage and suppress paper documents.

To leverage a new model, financial companies should move toward "meeting consumers wherever they are." While there are many operational details to address, the biggest obstacle may be cultural – changing mindsets within companies.

This isn't a challenge companies must face alone. Successful financial firms will leverage the strategic advice, technological processes and operational support of experienced partners to assure a successful, smooth transition. The right partners also can help to increase a company's confidence in changing business models, which can help to capture first-to-market advantages in a highly competitive industry undergoing dynamic changes.

To learn about Broadridge's services for "Go-to-Them" electronic communications and document delivery, please visit: **broadridge.com/fluent.**

Contact Us

For additional information, please contact: Adam Berke, Senior Director
Broadridge Customer Communications +1 631 274 2754 or email
Adam.Berke@Broadridge.com

About Broadridge

Broadridge Financial Solutions, Inc. (NYSE:BR) is the leading provider of investor communications and technology-driven solutions for broker-dealers, banks, mutual funds and corporate issuers globally. Broadridge's investor communications, securities processing and business process outsourcing solutions help clients reduce their capital investments in operations infrastructure, allowing them to increase their focus on core business activities. With over 50 years of experience, Broadridge's infrastructure underpins proxy voting services for over 90% of public companies and mutual funds in North America, and processes more than $5 trillion in fixed income and equity trades per day. Broadridge employs approximately 6,700 full-time associates in 14 countries. For more information about Broadridge, please visit **broadridge.com.**

[1]ACH Payment Volume Exceeds 21 Billion in 2012, NACHA, 4/9/13: www.nacha.org/news/ach-payment-volume-exceeds-21-billion-2012
[12]Electronicpayments.org: http://www.electronicpayments.org/individual
[13]Ibid.
[14]Source: The Future of Multi-channel Transactional Communications in the U.S., InfoTrends, 2013
[55]Source: The Future of Multi-channel Transactional Communications in the U.S., InfoTrends, 2013.
[6]Competitive Strategy in the Age of the Customer, Forrester Research, Inc., by David M. Cooperstein, 10/10/13: http://solutions.forrester.com/Global/FileLib/Reports/Competitive_Strategy_In_The_Age_Of_The_Customer.pdf
[17]Ibid.

Broadridge®