



# The Business Case for PFM Services

## Introduction

Analysts across the financial services industry – from Gartner, Javelin and Aite to Forrester, Tower, Celent and Swimming Upstream – have sounded the call for banks and credit unions to expand their online services with personal financial management (PFM) features.

Javelin writes:

***“The stage is set for a heated battle between banks and PFM websites to satisfy the consumer’s appetite. There is an ROI for PFM ... through increased customer loyalty, higher usage, lower costs and added revenue.”***

Swimming Upstream says:

***“OFM represents the perfect storm for adoption where key elements come together at the same time to ensure success. Customers need this type of service ... OFM delivers incremental bottom line results through increased retention rates and product ownership.”***

This paper draws on case study and research findings to outline the key considerations that financial institutions are making as they build the business case for PFM services.

## Market Dynamics

A combination of forces are driving interest in PFMs.

### **Customers want help managing their finances**

The lingering recession has heightened consumers’ anxiety about their financial condition. Javelin surveys show nearly one in four people would prefer to use a more sophisticated personal finance management option than they use today. The current top-three methods include checking balances through online banking, using manual pen-and-paper systems, and spreadsheets.

### **New competitors threaten banks**

Nearly two dozen nonbank websites have emerged to offer free access to PFM features. These sites allow users to analyze expenses, create and manage budgets, and track their net worth across accounts held at multiple financial institutions.

Many of these sites display ads for competing financial products, pointing users toward lenders and credit card issuers offering lower rates than they currently pay. Nonbank PFMs have attracted millions of customers – the two most widely used sites claim a combined 2.4 million accounts. Their advertising, and their growing popularity as a

financial hub for users, threatens to disintermediate and weaken relationships with banks and credit unions.

### **Consumers trust banks over PFM websites**

Javelin surveys show that consumers are twice as likely to trust a bank or credit union over a web-based PFM site when it comes to protecting their financial information. Even Gen X and Gen Y consumers, who are most comfortable doing business online, place significantly more trust in banks and credit unions than PFM websites. That said, the longer banks wait on the sidelines, the more credibility nonbank PFMs are establishing.

### **Online banking has become our preferred channel**

A 2010 survey by the American Bankers Association confirmed that online banking represents our most preferred method of banking. The ABA declared, “Online banking is the future of banking ... This means the industry will need to continue investing in technology that supports online banking because consumers see it as quick, convenient, accurate and safe.”

### **Financial Institutions Respond**

Early-mover banks and credit unions – an estimated 300 to 400 – have enhanced their online services to add PFM features. They’ve adopted a proactive stance to differentiate themselves from competitors. As a manager at a top-100 bank told Lodo:

***“In two years time, PFMs will be table stakes for online banking.”***

Each bank and credit union must evaluate the business case for PFM services in the context of its own objectives and strategies. Meanwhile, nonbank PFM sites continue to attract new users every day.

How are financial institutions leveraging the online channel to deepen customer relationships and grow their business? How have early-adopter banks justified their investment in PFM solutions?

### **Build Loyalty that Boosts Retention**

By helping customers get a better handle on their finances, banks and credit unions can **generate goodwill** at a time when the reputation of financial institutions has suffered in the public eye. Customers who are better informed and able to manage their money are more likely to grow their assets in the future. As a bank executive told Lodo:

***“A PFM gives me the ability to think in terms of lifecycle management so when Bill the college student graduates, he becomes Bill the car loan buyer and eventually Bill the mortgage loan borrower.”***

Beyond goodwill value, PFMs are sticky applications. In a survey by Javelin, **66 percent of consumers who use PFMs say the availability of such tools would have a “strong” or “very strong” effect on the likelihood they would remain a customer** of their bank or credit union. This was higher than nonPFM users and offline customers.

In a well-documented case study of a top-100 credit union, after adding PFM services to its online site, the credit union reported **annual member retention rates of 98 percent among those who used the PFM**. This was higher than the retention rate for online members who didn't use the PFM and nearly double the rate of offline members.

## Grow Wallet Share

In the credit union case study, **PFM users grew the number of deposit and credit accounts they owned and increased their average balances** over other members after adopting the service.

PFM users had an average of 3.7 accounts vs. 3.4 for nonPFM users and 3.1 for offline members. With their higher number of accounts and lower attrition rate, **PFM users generated \$2.1 million in annual profit** for the credit union. This was **12 percent more** than the profit earned from nonPFM users and **45 percent more** than offline members.

PFM users at the credit union **logged in to the online site twice as often as others – 18 times per month** versus nine times for nonPFM users. Each login represents a new opportunity to cross-sell and highlight self-service capabilities.

The same experience has been reported at BBVA, where PFM users spend **twice as much time on the bank's website** as nonPFM customers.

## Attract New Customers

Surveys show that PFMs are **especially attractive to young customers** and to the **68 percent of people who hold accounts at more than one financial institution**. Nearly 20 percent of consumers have financial relationships with four or more institutions.

Small business owners are also ripe for PFM adoption. New PFM websites are emerging that cater to the specific needs of these clients, again competing with the services offered by traditional financial institutions.

Customers today want less complexity in their financial affairs. Offering a PFM service can help attract new customers by offering the convenience of 24/7 access combined with an aggregated view of their financial position. And with new customers come **new opportunities to attract deposits and loans** held at competing institutions.

## Drive Revenue through Personalized Cross-Selling

Should banks and credit unions charge for PFM use? Some eye the opportunity to bundle a free PFM with online accounts that pay rewards for debit card usage, which drive processing fees. Others see the potential to offer a no-cost PFM that analyzes accounts held at the bank, while charging a fee to premium customers who aggregate account information from multiple institutions.

Surveys by Javelin highlight aggregation as the most important feature of money management systems in the eyes of consumers. **Above any other feature, people value the ability to see all their accounts and transactions in a single place.**

Aggregation has another key benefit: **it allows a bank or credit union to learn more about each customer's overall financial position**, spotlighting opportunities to cross-sell products and services with new precision. **This is perhaps the most compelling point** to consider. As a manager at a top-100 bank told Lodo:

***"I would happily offer a free PFM in exchange for capturing data that helps me intelligently cross-sell to my customers."***

The more information hosted in a PFM platform, the greater the opportunities to personalize cross-selling and present the best of what a bank has to offer, to the right clients, at the right time.

A broad range of customer demographics can be used to target offers including net worth, account attributes (e.g., type, balance, interest rate, available credit), liquidity, trending data, and financial goals. With this information, a marketing manager could, for example:

- Quickly identify customers who are ripe for a specific credit card or loan offer
- Identify customers whose net worth exceeds a defined level
- Understand which of your competitors have relationships with your small business accounts
- Track which merchants your customers buy from, to identify opportunities for co-branded partnering programs

Using the cross-selling tools in a PFM, the bank's marketing team could then create a promotional message for delivery via the PFM dashboard, pop-up ad or email message. They could schedule the message for one-time or recurring presentation. They could launch the campaign and get follow-up reports that measure the number of customers who've viewed the message and the number who've clicked through for more information.

## Quantifying the ROI

The questions below draw on consumer research and early-adopter experience to offer a checklist for building the PFM business case.

- What value would your bank place on **boosting customer retention rates to 98 percent**, as one credit union achieved with the addition of PFM features?
- How much profit is lost when a customer leaves your institution? **What does it cost** – in time, out-of-pocket expense, lost revenue – **to replace a client**?
- How much incremental business could you drive by deepening the relationship with your online customers? What would a **12 percent increase in bottom line profit** mean to your bank or credit union?
- How many cross-sell opportunities could you leverage if your online customers **doubled their monthly visits** to your site? How many cost-saving messages could you present about self-service features?
- How important is it for your bank to **attract Gen X and Gen Y** customers as a foundation for growth?
- How is your bank differentiated in **services for small business customers**? How are you defending against nonbank PFMs offering tailored services for business accounts?
- How could you bundle PFM services with other products and services to **attract new customers with new assets and deposits**?
- What value do you place on **understanding your customers' complete financial positions**?
- What kind of improvement could you drive in response rates and revenue growth if you **tailored cross-sell messages to highly targeted and qualified segments**, using simple online tools that your marketing department could manage?
- What kind of **new product and service ideas** could you develop if you knew more about your customers' behavior and your competitors' offerings?
- What value do you place on the **goodwill** that grows out of helping your customers manage and improve their financial condition? What kind of opportunities could you create to **deepen relationships** with clients in a way that drives revenue and lowers costs for your institution, while saving money and delivering improved returns for your customers?

## OurCashFlow

Lodo's PFM solution is built to help banks and credit unions fully capitalize on the opportunities above. Our software is designed to be **bank-branded** and hosted, **tightly integrating** with online banking sites. In addition to offering the full range of PFM features, OurCashFlow includes a **valuable cross-selling tool** that allows banks to leverage a rich set of data about their customers' financial positions to tailor and personalize messages for **maximum impact and ROI**.

For more information or to arrange a live demonstration of our software, contact Lodo by emailing [info@lodosoftware.com](mailto:info@lodosoftware.com).

## Sources

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