PERSONAL FINANCE MANAGEMENT

HOW BANKS CAN USE PERSONALIZED SERVICES TO INCREASE CUSTOMER SATISFACTION AND COMPETE WITH FINTECHS

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KEY POINTS

- **The ability to conduct banking activities via a sleek mobile app is no longer enough to satisfy consumers — it's table stakes.** Banks now need to provide additional tools that keep users engaged in-app and enable them to better manage their financial lives. Yet it seems that many are coming up short in providing these solutions — 31% of US consumers aren't managing their finances, according to a report from technology supplier Personetics seen by Business Insider Intelligence.

- **Banks need to focus on deploying robust personal finance management (PFM) features that pull consumers in.** PFM tools used to focus mainly on tracking spending, but now they extend to helping people manage their overall financial health, investments, and savings — all automatically, according to Eran Livneh, VP of marketing at Personetics. Introducing these features can help banks keep their customers more engaged, while ensuring that their offerings remain competitive with those of fintechs.

- **There are three common approaches banks can take to effectively implement these tools — partnering with a PFM-focused fintech, working with a PFM technology supplier, or acquiring a PFM startup.**

    - **Partnering with a PFM-focused fintech can save banks important time.** This approach enables the partnering bank to bypass building these features itself, saving a lot of time and enabling the bank to go to market quicker. However, banks taking this approach must be prepared to forego the ability to implement more tailored services.

- **PFM technology suppliers, on the other hand, can help banks overhaul their mobile apps with specially designed features.** These firms operate a business-to-business (B2B) model and aim to provide the enabling infrastructure banks need to successfully offer PFM features to their customers. They include UK-based PFM supplier Meniga and Israel's Personetics.
- **Acquiring a startup is usually a more expensive option, but it also provides a couple of unique benefits.** These include the ability to acquire valuable talent and having complete control over the integration.

- **PFM tools are set to become an expected facet of all financial products.** That means banks need to choose a strategy now that will enable them to stay on top of the PFM trend in the future. It's also important that banks avoid sticking with certain PFM features and leaving it at that — they have to ensure that these features become smarter over time, perhaps with the use of artificial intelligence (AI), to give consumers even better insights into their finances.

Download the charts and associated data in Excel »

INTRODUCTION

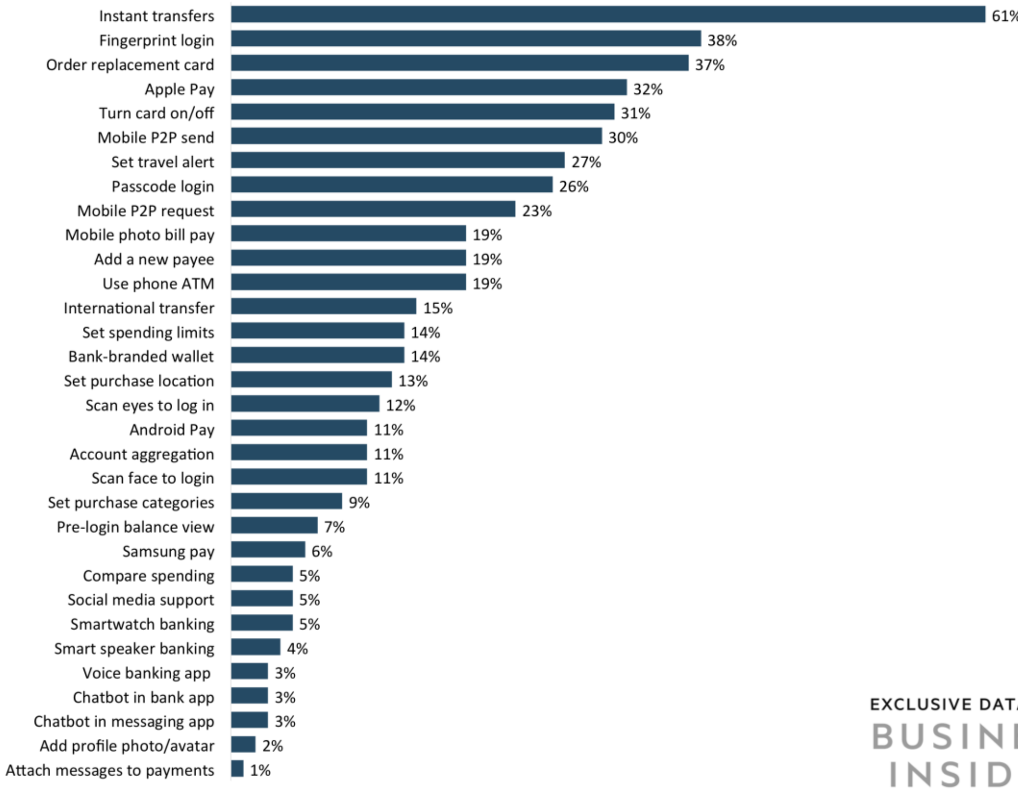
The ability to conduct banking activities via a sleek mobile app is no longer enough to satisfy consumers — it's table stakes. To differentiate, banks now need to work to provide additional tools that keep users engaged in-app and enable them to better manage their financial lives. Yet it seems that many are coming up short in providing these solutions — 31% of US consumers aren't managing their finances, according to a report from Israel-based technology supplier Personetics seen by Business Insider Intelligence. And that increases to 53% for millennials, suggesting the issue is more severe for younger consumers. This indicates that banks need to put more effort into deploying robust personal finance management (PFM) features that pull consumers in.

PFM tools used to focus mainly on tracking spending, but they now extend to helping people manage their overall financial health, investments, and savings — all automatically, Eran Livneh, VP of marketing at Personetics, told Business Insider Intelligence. Consumers want their banks to provide financial information that they don't already know, such as whether there are specific areas they can save in or if they've been double charged by a merchant, Livneh said. One of the main issues with PFM is that it doesn't bring in direct revenue, and it's been overlooked by many for decades as a result. Instead, banks tend to focus on how to increase uptake of revenue-generating products like mortgages. But, with customer-centric fintechs pushing PFM tools to the fore, incumbents are starting to wake up to the value of these offerings.

Fintechs have been busy implementing PFM features: UK neobank Monzo partnered with If This Then That (IFTTT) in June to allow users to connect their accounts to over 500 different services, including Twitter and Google Assistant, for example. The integration enables customers to set a plethora of rules — for example, it can link to a user's fitness app, track when they go to the gym, and move money into the user's savings account after each workout to reward them. The introduction of such tools by neobanks is putting pressure on incumbents to develop similar offerings. Some banks have already started to integrate PFM features into their mobile banking apps and are seeing improvements in engagement; the Royal Bank of Canada (RBC) started implementing Personetics' suite of PFM features in September 2017 and reported a 20% increase in user engagement with its mobile app, for instance.

US Demand For All Mobile Banking Features

Q: How important would the following mobile banking features be if you were choosing a bank? Extremely important shown.



Source: Source: Business Insider Intelligence survey, n=1,145,

Meanwhile, regulators are pushing banks to enhance money management features. The UK's Financial Conduct Authority (FCA) announced proposed changes that would alter the way banks interact with those who use overdrafts and high-cost credit. The regulator decided it's necessary to reduce costs for consumers, and wants to give them greater control over their finances by forcing banks to implement more PFM features. Banks brought in around £2.3 billion ($3.1 billion) in revenue from overdrafts in 2016, according to the FCA. Unarranged overdrafts made up 30% of this figure, causing consumers to pay £450 ($600), on average, in fees per year. Banks often don't let consumers know when they are close to dipping into their overdraft, which can make money management difficult. The FCA is now calling for banks to include PFM features like mobile alert warnings of potential overdrafts, online tools to better explain overdraft fees, and online tools to assess eligibility for overdrafts, among other tweaks. The FCA hopes to save consumers up to £140 million ($187 million) a year, which shows just how necessary these tools are for consumers.

Consumer demand for PFM will only increase as more fintechs offer such tools. Additionally, regulators will probably continue to push banks in this direction to make money management more transparent. It's therefore important for incumbents to get in on this trend and make their banking apps smarter to give consumers better insights into their financial situations. This report will discuss, evaluate, and give examples of three commonly seen approaches banks can take to effectively implement these tools — partnering with a PFM-focused fintech, working with a PFM supplier, or acquiring a PFM startup.

POPULAR PFM FEATURES OFFERED BY BANKS

	Instant spending notifications	Account aggregation	Spending insights	Automated investing	Automated saving	Financial health tips
Monzo	✓		✓		✓	
TD Bank			✓		✓	
RBC	✓	✓	✓	✓	✓	✓
Finn by Chase			✓		✓	
Marcus by Goldman Sachs		✓	✓	✓	✓	✓

BUSINESS INSIDER INTELLIGENCE

PARTNERING WITH A PFM-FOCUSED FINTECH PROVIDES A NO-FRILLS APPROACH

There are many PFM-focused fintechs that provide customers with meaningful insights into their finances. These include neobanks, which typically offer a current account integrated with PFM features. Additionally, there are a number of PFM startups that connect to an individual's existing bank account, such as UK-based chatbot Emma, which helps users find and cancel subscriptions and track debt; Ernit, a Danish PFM app targeted at children; and Plum, a chatbot on Facebook Messenger that can answer questions about finances and ensure that people aren't overpaying for financial products. PFM-focused fintechs primarily offer their services to customers directly, but some have started to work with banks. Ernit integrated with Danish bank Spar Nord earlier this year, and Plum supports most major banks in the UK, for instance. This likely increases the user bases of these startups and makes them willing, if not eager, partners.

Partnering with PFM-focused fintechs can save banks important time. This approach enables the partnering bank to bypass building these features itself, saving a lot of time and enabling the bank to go to market quicker. As more and more players move into the PFM space, being quick and launching products sooner rather than later is growing very important. Additionally, the features that a bank gains access to through this type of partnership have already been through pilots and proven themselves successful and usable. These fintechs can offer banks chatbots that help answer customer queries, for example, which not only increases customer satisfaction, but also frees up time for employees to handle more complicated tasks. That makes this approach a lot safer for banks, as they don't have to deal with any of the risks associated with developing PFM tools from scratch.

TD Bank opted for this strategy when it partnered with with US neobank Moven. The companies first started working together in 2014, and TD Bank announced TD MySpend in 2016, a companion app for its existing mobile application. TD MySpend leverages Moven's PFM tools, under a licensing deal, to help users better track their spending habits with gamification tools like a spending meter and spending category breakdowns. Additionally, consumers receive instant notifications displaying how much they've spent after making a transaction. While sending instant notifications is standard for digital banks including Monzo and Revolut, this is often not the case for traditional banks, where it can take days for a transaction to show up on someone's online statement.

The firms extended their partnership last year following great results for TD Bank. TD MySpend immediately rocketed to the top spot on Canadian app stores when it launched, surpassing the likes of Facebook and Instagram. It acquired 850,000 customers in the first nine months after its launch, and helped users reduce their spending by up to 8%, with those who used the app frequently seeing the best results. As a result, the firms extended their technology licensing deal for another five years in 2017. Under the extended deal, TD Bank will continue to use Moven's PFM technologies, as well as expand its use of the tools to the US.

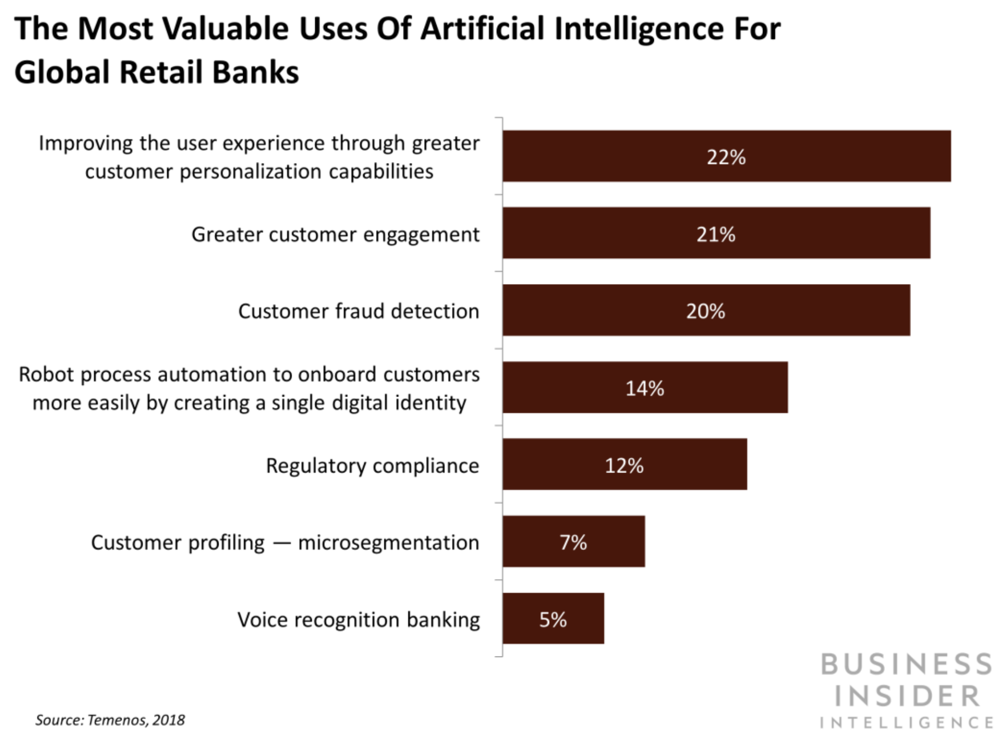
However, partnering with a PFM-focused fintech means less freedom for the bank. Working with a fintech that has its own vision and goals can be difficult, as the PFM features it offers might not be tailored effectively to what the bank is looking for. This approach requires the partnering bank to accept a ready-made product, with virtually no input, which could mean that the bank doesn't get the features and services it needs to appropriately serve its customers. It also makes it more difficult to differentiate from the competition, as using tools from another company is simply replicating already available services. This strategy is likely to be most effective for banks that don't have the resources to acquire a PFM startup, or those that want to explore implementing PFM features without making too much of a commitment initially.

PFM TECHNOLOGY SUPPLIERS OFFER A PATH TO IN-HOUSE DEVELOPMENT

As PFM comes to the fore, a new crop of technology suppliers has emerged to help banks implement these tools. These firms operate a business-to-business (B2B) model and aim to provide the enabling infrastructure banks need to successfully offer PFM features to their customers. They include UK-based PFM supplier Meniga, which boasts clients such as ING Direct, Santander, and Swedbank, as well as RBC supplier Personetics. These companies help banks revamp their mobile apps with PFM services — for instance, Meniga's technology enables customers to compare their finances to those of people with similar demographic and financial profiles, and provides them with alerts about unusual transactions or a low balance.

This approach enables banks to overhaul their banking apps with specially tailored features. Personetics, for instance, gives banks complete control over which features to add and how they appear in-app, according to Livneh. The company's core offering is its Cognitive Banking Applications suite, which includes services like educating customers about saving goals and financial well-being, suggesting steps they can take to increase savings and reduce debt, initiating automated actions to help consumers stick with their plans, and providing feedback on their ongoing goals. This suite has a 90% satisfaction rate among customers, and up to 30% respond to the recommendations they're given. Personetics also uses conversational AI to reduce operational costs for banks — it's been able to implement a 40% reduction in chat sessions and up to 30% fewer calls for banks. Offering PFM features is now a must-have, according Livneh, and they have to be smart, proactive, and forward-thinking, without forcing customers to go through many data entry queries.

Personetics has worked with RBC since 2016 to help the bank improve its banking app. RBC uses Personetics' NOMI Insights, which highlights everyday spending patterns and cash flow trends for an individual, according to Rami Thabet, VP of mobile at RBC, who spoke with Business Insider Intelligence. It then alerts customers of overspending within the app, or lets them know if they've been double charged by a merchant, for instance. It also uses the NOMI Find & Save offering in partnership with Personetics, which uses AI algorithms to identify where a person can save money, and then automatically — with their agreement — invests this money for the customer. Customers save twice as much money with NOMI Find & Save as they do with traditional savings products, according to a report from Celent seen by Business Insider Intelligence. All of these products are based on AI, meaning they get smarter with time, which increases their usability as customers engage with them more.



Meanwhile, Finn AI uses conversational AI to help banks provide their customers with smarter financial insights. The Canada-based startup offers a white-label conversational banking platform enabled by AI, which primarily uses natural language processing (NLP) and machine learning. It allows consumers to communicate with their banks about products and better understand their banking behavior through contextualized insights and recommendations, which are delivered either via their mobile banking app or social media, Carrie Russell, executive strategic advisor at Finn AI, told Business Insider Intelligence. Finn AI's solution can categorize and unpack spending behaviors to help an individual understand how much they're spending on groceries or subscriptions, for instance. Additionally, it can alert a user when a subscription is due to be renewed, and provide recommendations on where spending can be reduced. Finn AI helps its clients implement the chatbot and optimize its performance for their customers. It currently has commercial relationships with ATB Financial and the Bank of Montreal, among others.

The more data a PFM solution can take into account, the better it will be for a bank. This makes AI a very suitable technology for PFM tools, as it gets smarter with time and gives customers an increasingly personalized experience. However, AI is still a nascent technology, and banks often don't have the necessary know-how to build AI solutions themselves, which makes working with a PFM technology supplier that specializes in AI an attractive option. It's also important to find the right strategy when implementing conversational AI — the success rate of getting customers to engage with a chatbot depends on how a bank rolls out the platform, Russell said, adding that piloting features before a full launch is a good approach. Banks should also help consumers understand why certain actions are wise, Russell explained, in order to increase financial literacy. These actions include helping people identify where they can save money and explaining why they should put money into savings at the end of each month, for example.

Partnering with a supplier is a cost- and time-efficient way for banks to introduce PFM features. Similar to partnering with a PFM-focused fintech, working with a PFM supplier can decrease time to market by creating access to ready-made features — though, in this case, they are specifically created to be used by bank partners, and can be tailored accordingly. Additionally, it's cheaper to work with a PFM supplier than to fully acquire a PFM startup, and likely involves less paperwork and issues with integration, as these products were made to be implemented by third parties. While Livneh didn't disclose the cost for a bank to work with Personetics, he noted that the price is correlated with the bank's customer numbers. As such, this is likely an inexpensive and attractive option for smaller banks.

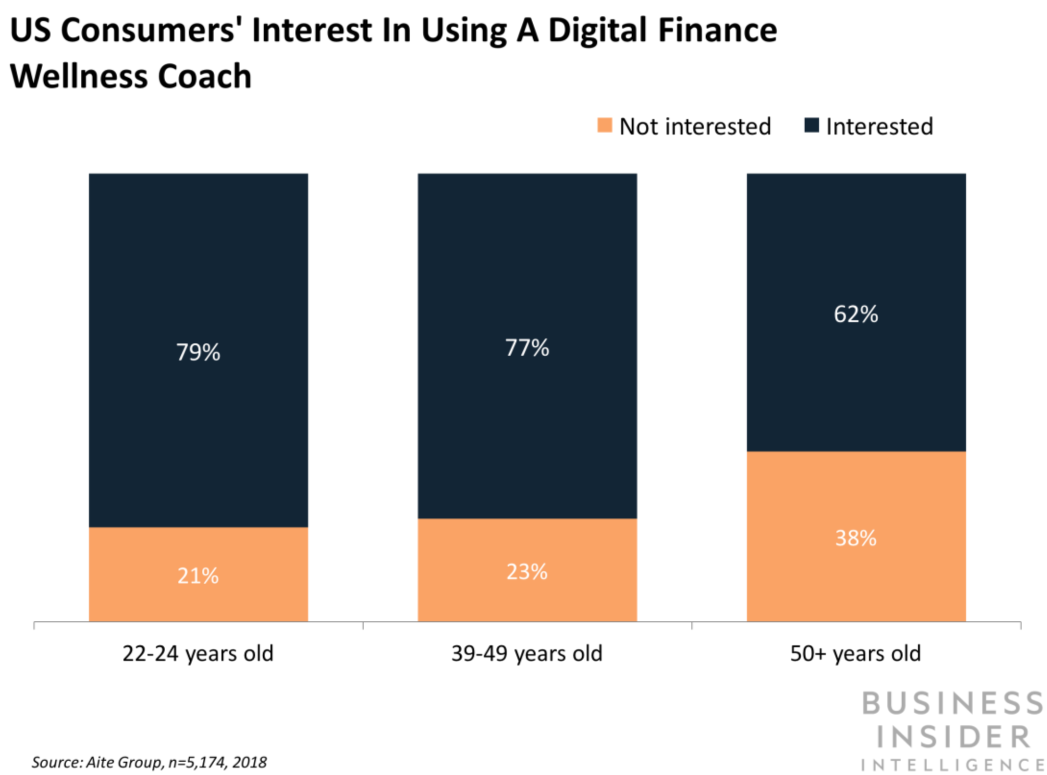
The PFM technology supplier landscape is still nascent, and there hasn't been enough time for leaders to emerge. However, once some banks have chosen their suppliers, it's likely that others will follow suit. According to Livneh, these early banks will have already conducted the “vetting process” to figure out whether a supplier is suitable or not, and then endorsed their products by implementing them, resulting in less work for future banking partners.

ACQUIRING A PFM STARTUP PROMISES FULL CONTROL

An incumbent can also opt to acquire a PFM startup and then integrate it into its own business. Acquiring a startup may be a more expensive option, depending on how well established the company being acquired is, but it also provides the bank with a couple of unique benefits:

- **It provides access not only to the right features, but also to talent and expertise.** In addition to getting ready-made products, ostensibly with an already existing customer base, the acquiring bank gets all of the employees who built those products. That could make this an especially attractive option, as tech talent is still scarce in the finance industry — 80% of financial services and fintech executives have difficulties hiring and retaining skilled people for innovation projects, with over one-third saying it's very difficult.

- **Acquisitions also give banks a lot of control over the integration.** By fully acquiring a company, the bank has complete say over what it wants the integration process to look like and what features it would like to implement. That affords the firm a freedom that is unlikely to exist with the other approaches, which require the bank to work with a company that's autonomous.



Goldman Sachs notably chose this path when it acquired PFM app Clarity Money for its digital lending arm Marcus in April 2018. Marcus launched in October 2016 and has since originated some $2.5 billion in loans. It also now offers savings accounts with a minimum threshold of $1. Marcus was the first US alt lender to issue $1 million in loans in under one year, and currently boasts around 350,000 customers. By acquiring Clarity Money, Goldman plans to enhance Marcus' PFM offerings, while bringing in Clarity Money's 1 million existing customers. The relationship between customers and their finances is broken, causing them a lot of anxiety, Omer Ismail, chief commercial officer at Marcus, told Business Insider Intelligence. By introducing Marcus and acquiring Clarity Money, he said, Goldman wants to fix this relationship and help customers better manage their finances.

Clarity Money aggregates all of a customer's accounts in one place. By using an application programming interface (API), Clarity Money can link to other financial institutions and provide a view of all of a customer's accounts at once. That means consumers will be able to see their Marcus account next to their other accounts, which will bring the digital lender closer to becoming a one-stop shop for financial services. In addition, the app will provide insights into what types of accounts or financial services are more suitable for someone's financial situation, Harit Talwar, head of digital finance at Goldman Sachs, explained at the 2018 CB Insights Future of Fintech Conference. This means we will likely see Marcus rolling out a variety of other PFM features as it incorporates Clarity Money.

Sixty percent of consumers don't know their savings accounts' annual percentage yield (APY), according to a survey Marcus conducted of over 1,000 Americans with savings accounts. By leveraging Clarity Money's technology, Marcus wants to give its customers easy-to-use tools that will make it easier for them to understand the different options and help them better prepare for their financial futures. Given this approach, it seems likely that Marcus will eventually provide its customers with nudges on how to make better use of financial services.

Marcus has not yet integrated Clarity Money within its services, but it plans to do so in the coming months, according to Ismail. It is not entirely clear how this integration will look, Ismail said, as the company is currently still working on the details.

Despite the benefits of this approach, it's only available to the most resource-rich incumbents. Acquiring a startup is far more expensive than inking partnerships, so this strategy is likely to be pursued exclusively by major banks with a lot of capital available for their digital strategies. It remains undisclosed just how much Goldman Sachs paid for Clarity Money, but the bank's deep coffers suggest that it could afford a high price tag; reports suggest that it shelled out somewhere in the high eight figures for the startup.

PREPARING FOR A PFM-CENTRIC FUTURE

PFM tools are set to become an expected facet of all financial products. That means banks need to choose a strategy now that will enable them to stay on top of the PFM trend in the future. All three strategies discussed in this report have advantages and drawbacks, and banks should carefully evaluate these approaches to choose the right method of implementation for their own business. We'll probably see many more partnerships and acquisitions between banks and PFM companies in the future, as banks are increasingly looking for ways to stay relevant amid ongoing disruption from fintechs, and PFM is set to be an important battleground.

Meanwhile, certain PFM features are quickly becoming table stakes. Account aggregation, for example, is one that many banks already have in place. Additionally, a lot of banks offer instant spending notifications, but they are not smart so people either have to spend time setting up complex rules or they get a lot of notifications and stop paying attention, according to Livneh. To take instant spending notification further, banks need to focus only on the ones that are likely to be important and helpful to that individual customer — e.g. a charge from a new merchant or a charge from a frequent merchant that is higher than usual, says Livneh.

It's important that banks avoid sticking with certain PFM features and leaving it at that — they have to ensure that these features become smarter over time, perhaps with the use of AI, to give consumers even better insights into their finances. Banks should also be proactive in their money management advice and consider the financial future of consumers, rather than only making suggestions based on their history.

THE BOTTOM LINE

- The ability to conduct banking activities via a sleek mobile app is no longer enough to satisfy consumers — it's table stakes. Banks now need to provide additional tools that keep users engaged in-app and enable them to better manage their financial lives.

- PFM tools used to focus mainly on tracking spending, but they now extend to helping people manage their overall financial health, investments, and savings. Introducing these features can help banks keep their customers engaged, while ensuring their offerings remain competitive with those of fintechs.

- Partnering with a PFM-focused fintech can save banks important time. This approach enables the partnering bank to bypass building these features itself.

- PFM technology suppliers can help banks overhaul their mobile apps with specially designed features. These firms operate a B2B model and aim to provide the enabling infrastructure banks need to successfully offer PFM features to their customers.

- Acquiring a startup is usually a more expensive option, but it also provides a couple of unique benefits. These include the ability to acquire valuable talent and having complete control over the integration.

- PFM tools are set to become an expected facet of all financial products. That means banks need to carefully evaluate and choose a strategy now to stay ahead in the future.

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