NextWave Consumer Financial Services: financial subscriptions are coming

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Letter from the authors

Ernst & Young LLP is excited to share the EY NextWave Consumer Financial Services research report. During the past nine months, our team interviewed dozens of senior business, digital, product and technology leaders across the banking, wealth management, insurance and technology industries. Our goal was to understand their growth strategies and the forces transforming the way their companies compete for consumers. We also studied the factors impacting consumer trust and trends reshaping consumer ecosystems.

In parallel, we conducted a primary research study targeted at mass-market, mass-affluent and high-net-worth consumers to understand the preferences and behaviors that influence personal financial decisions and engagement with financial services firms and products. We designed a sophisticated conjoint research survey to measure and understand the engagement and switching behavior of financial services consumers with an unprecedented degree of precision and granularity. Based on the research, we built a powerful, proprietary simulator platform that makes it possible for companies to quantify the scope and scale of their opportunities. Specifically, they can design and test custom value propositions and subscription-based bundles to predict expected demand capture for targeted customer segments.

Based on our fieldwork and research, we have developed three bold but realistic market hypotheses that we believe will *reframe* the consumer financial services industry over the next five years. In this report, we have outlined how value will get reshaped across the banking, wealth management and insurance sectors, and how the winners of the next wave of consumer financial services must embrace a new value creation mindset.

Why did we undertake this study now? First, we believe the consumer financial services industry is at an inflection point, and we wanted to dig deeper and look beyond the industry's cliché narratives of technology-driven disruption and digitalization to understand the real drivers of the next era. Second, we wanted to provide new and valuable insight to companies about how to grow their businesses sustainably, responsibly and in a way that generates true alpha. Third, many companies have struggled over the past 10 years to modernize their core processes, platforms and functions. They have settled for an incremental approach that has done little to help the industry overcome the significant burden of legacy environments and technical debt. We wanted to help companies make the case for legacy modernization as an imperative for future relevance.

Our hope is that this research report provides meaningful insight that will help firms grow with more confidence and pivot to serve the consumer of tomorrow. We believe these proprietary insights can make a positive impact on the industry and on consumers' lives. That is what makes EY NextWave consumer research unique — and uniquely powerful. Indeed, this win-win scenario — simultaneously promoting consumer financial well-being and industry success — inspired the research purpose and methodology. We welcome the opportunity to hear your thoughts on the study and to share more about the proprietary insight platform that underpins this report.

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Executive summary

As digitalization takes over more of the financial world, consumer financial services firms will need to shift their strategies to differentiate on trust, financial health and bundled offerings that transcend product-centric selling and present more holistic and personalized value propositions. Over the next five years, the consumer financial services industry will be *reframed*.

What does it mean to be reframed? The last 10 years have provided several examples.

- Smartphones weren't just better phones; they fundamentally reframed platform-based access at one's fingertips. Now an entirely new ecosystem of value exists around the mobile platform ecosystem.
- Ubiquitous one-stop shop, free-delivery e-commerce platforms didn't just offer better retail experiences; they fundamentally reframed commerce. Now an entirely new ecosystem of value has been created for the consumer, integrating commerce with other relevant offerings and experiences.
- Streaming services didn't just create a new distribution model for content; they fundamentally reframed the creation, consumption and distribution of content. And now the entire industry has been forced to shift its business models to stay relevant.

All three examples have one thing in common: they introduced a brand-new context that catalyzed change in demand-side (consumer) preferences and behaviors. In doing so, they forced the supply side (industry) to reimagine its future or be rendered irrelevant. We now see this occurring across virtually every aspect of the consumer economy.

What will reframing mean for consumer financial services? Value will shift from the monetization of products and transactions to the productization of user experiences that monetize consumer relationships themselves. In short, the industry will become the new subscription-based model, and in doing so, we will witness the disintermediation of the financial *service* from the financial *product*. The catalyst will be the concept of "the consumer's personal financial operating system," a dynamic, trusted and embedded digital experience that helps consumers improve their financial lives through constant, relevant, daily interaction and engagement. Today's product-centric growth paradigm will become obsolete. Winners will reimagine the future and race toward it, while others will be rendered irrelevant.

Consumer financial services firms will need to shift their strategies to differentiate on trust, financial health and bundled offerings.

Winning in the next wave will require foresight to reimagine the business, willingness to challenge the status quo and appetite for bold action. In this report, we will provide deeper insight organized around three key hypotheses.

- Shifting trust dynamics will reshape the US financial landscape and prompt the movement of $11.3 trillion in assets during the next five years.

- AI-driven financial health platforms will become consumers' "personal financial operating systems."

- Consumer finance will become the next subscription model, unbundling products and re-bundling personalized and holistic value propositions based on life events.

Current state: four paradoxes that define the consumer financial services industry today

Whether one looks from the perspective of consumers or from that of the C-suite, four paradoxes define the state of the consumer financial services industry today. Firms plotting their future strategies must carefully consider these four paradoxes that have led to today's environment.

1 The financial health paradox

2 The trust paradox

3 The convergence paradox

4 The digital paradox

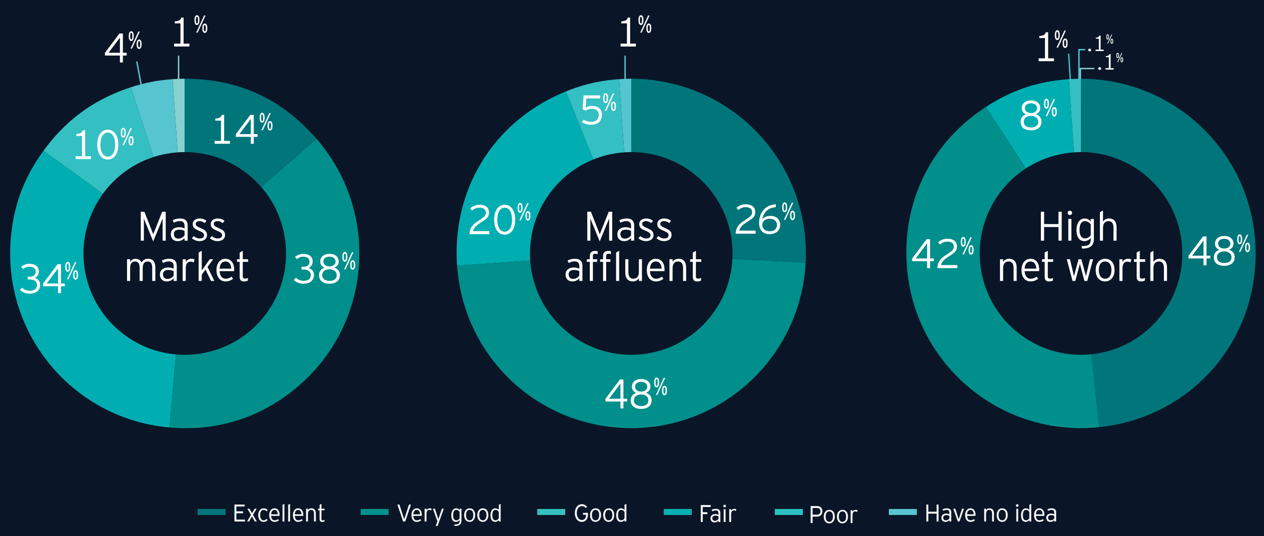
1 The financial health paradox: consumers think they are financially healthy, but empirical evidence says they are not.

The halo effect of a strong economy: In the 10 years since the financial crisis, the US economy has experienced a historic period of sustained economic growth, including a 10-year bull market that has generated a 14% annual return on the S&P index. Since 2012, average hourly earnings for all US workers have risen by 16%. The unemployment rate is near all-time lows, and consumer confidence remains at historically high levels, though there is uncertainty about future markets.

Not surprisingly, our NextWave research confirms that the economy's halo effect extends to consumer sentiment about financial well-being. On average, 83% of consumers rate their financial health as either "excellent," "very good" or "good" *(see Figures 1 and 2)*.

Figure 1

Financial health assessment by asset group



Note: due to rounding, figures do not equal 100%

Figure 2

Financial health assessment by age group

Consumers responding "excellent," "very good" or "good"

18–24	25–34	35–49	50–64	65+
90%	95%	90%	99%	97%

The hidden — and harsh — reality: For all the good news, the underlying reality shows a different picture. While financial markets and the consumer economy remain strong, data about actual consumer financial behavior and well-being is much starker. Ample research shows that US consumers are spending more, saving less, borrowing more and not focusing enough on their long-term financial futures.

As a result, more consumers live with the stress and uncertainty of financial instability than with the confidence of true financial security *(see sidebar)*. It's worth pointing out these issues affect individuals, families and society as a whole.

Individual and societal impacts: For individuals and families, financial well-being is about more than feeling confident about the economy; it's about the daily behaviors, actions and decisions that build toward financial stability and security (e.g., being able to pay for emergency expenses like a car repair or surprise medical bills).

The broad societal impacts are not discussed often enough. For example, students who graduate with loans hold, on average, $34,000 in debt — the equivalent of a mortgage — the moment they start working. The effect of widespread student debt on future home ownership and consumer confidence is unclear, though it's not likely to be positive. The financial services industry plays a significant and important role in helping consumers live the lives they want. However, the status quo shows that the industry has not yet developed solutions to close the gap between consumer perceptions of their financial health and their actual financial behaviors and situation.

What respondents say

"

I'm young and going to be graduating from college soon. I'd like to start good habits now, so I'm worrying about money less in the future.

Mass-market respondent

"

I always want to improve my financial health, and the more data you have the easier this is to do.

Mass-affluent respondent

Compared to attitudes about their own financial well-being, consumers' actual behavior suggests a looming crisis of debt and anxiety.

6%
Current household savings rates in US

10%
Suggested minimum household savings rate

$10.3 trillion
Outstanding debt from non-mortgage loans, 2019

$1.5 trillion
Outstanding student debt

44 million
US consumers holding student debt

43%
Percentage not making payments on student debt

$88 billion
Amount Americans borrow annually to pay for health care costs

$960 billion
Outstanding credit card debt, 2019

210%
Growth of 2009 levels

$4.3 trillion
Retirement savings gap for US

40 million
US consumers with no retirement savings

56%
Percentage of US consumers with less than $10,000 in retirement savings

60%
Percentage of US consumers suffering from financial stress

40%
Consumers who can't meet a $400 short-term emergency

Sources: US Federal Reserve, SNL Financial, WSJ, EY analysis, National Institute on Retirement Security, Employee Benefit Research Institute, American Psychological Association, GoBankingRates.com, West Health-Gallup

2 The trust paradox: consumers trust their primary financial provider but distrust the financial services industry overall.

The decline in overall industry trust: In a period of great macroeconomic strength, the US financial services industry experienced a 20% decline in trust among the informed public from 2017 to 2018, according to the Edelman Trust Barometer. This is the single largest decline across 28 global markets covered in Edelman's research; and this follows a steady five-year rise in trust experienced by the industry from 2012 to 2017 *(see sidebar)*.

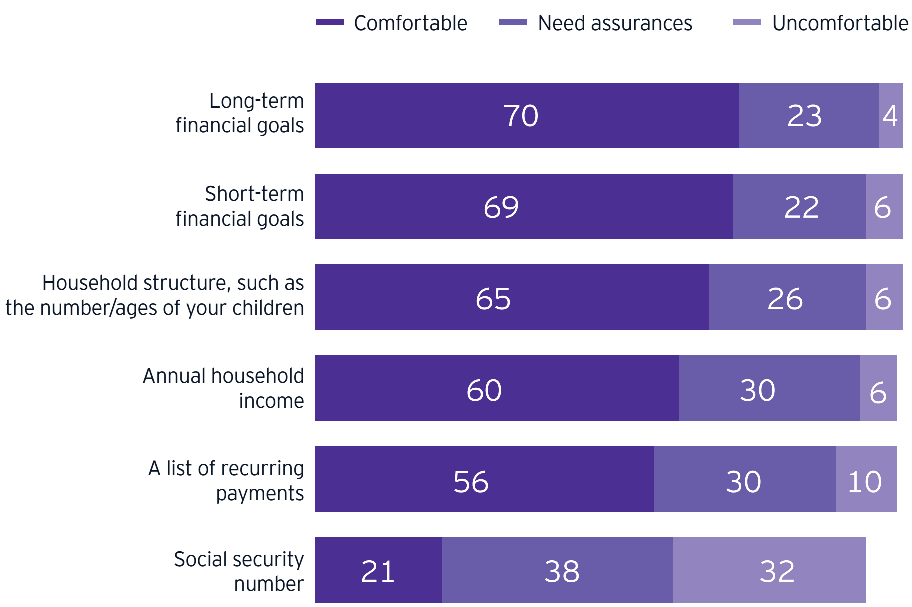
Considering historic stock market highs, strong consumer confidence, low unemployment and rising wages, it is difficult to believe that a single industry – especially one as important as financial services – could experience such a swift and precipitous drop in trust. Yet here we are.

The dual realities of trust: Similar to financial health, there is a significant difference between what industry and individual data show – that is, what consumers say about the financial services industry generally and what they convey when asked about trust in their primary financial services provider (PFSP) (*see Figure 3*).

The financial services industry lives in two realities simultaneously. The industry overall is losing trust, while individual institutions still maintain a strong level of trust among their core customers. The implications of this dissonance are significant.

Figure 3

Comfort level in sharing types of information with PFSP



CRISIS OF TRUST

20%

Decline in consumer trust of US financial services companies, 2017–2018

According to Edelman's Trust Barometer research, institutions worldwide have experienced significant declines in trust among the informed public in the United States from 2017 to 2018:

Business:
-20%
from 74% to 54%

Government:
-30%
from 63% to 33%

Media:
-22%
from 64% to 42%

According to Edelman, the "informed public" includes college-educated individuals between 25 and 64 years of age, who are in the top 25% of household income in their age group and report significant media consumption and engagement in business news.

Looking at individual industries, financial services is the least trusted sector globally among the general population, whose opinions Edelman's surveys also track. Trusted by only 54% of study respondents, financial services trails the consumer packaged goods (60%) and automotive sectors (62%). Technology (75%) and education are the most trusted industries.

Consumers have become accustomed to sharing virtually everything about themselves in their digital lives. The primary reasons they share are twofold:

1. **Personalized value:** In exchange for individual privacy, they get personalized offers, products, content, music, movies, entertainment, experiences, social interactions and even life advice, all because they share data about themselves.

2. **Price transparency:** They know what they are paying for. Consumers increasingly rent, pay to use, or subscribe to multiple services in parallel. The costs are transparent, and there are no hidden fees that a consumer does not choose to incur. Even when services are free, there is implied payment in the form of providing one's information for the purpose of targeted advertising.

The steady drumbeat of news about data breaches, the misuse of consumer data and unethical financial practices fuel perceptions that the financial services industry does not have consumers' best interests in mind. Further, consumers do not benefit as much from sharing data with financial services providers as they do from sharing data with other types of companies.

While the ease, convenience and digital customer experiences have all improved, the financial services industry lags other sectors in delivering the personalized benefits and price transparency that consumers expect in return for sharing information. This is the inherent challenge for financial institutions, and one of the largest risks and opportunities that firms will face in the coming years. The stakes around trust have never been higher for the industry.

What respondents say

"

No matter how well I am doing, I can always do more. I can learn from any and every source.

High-net-worth respondent

3 The convergence paradox: more companies look and act the same, while claiming to be different.

An undistinguishable mega industry: Consumer finance is not a single industry, but a fragmented collection of thousands of companies organized around product-oriented silos *(see sidebar)*. The collapse of traditional barriers between subsectors has accelerated to the point that today's financial institutions are virtually undistinguishable from one another in the eyes of consumers. Products and offerings now overlap across:

- **Insurers** expanding into wealth management, holistic financial planning and financial well-being
- **Wealth managers** seeking to deepen banking relationships and share of wallet for investment assets, while promoting financial wellness tied to goals-based financial planning
- **Banks** driving to expand their service and product ecosystems across all aspects of a consumer's financial needs — saving, spending, borrowing, investing and protecting

Meanwhile, technology firms have brought new aggregation capability to the forefront, creating new opportunities for financial firms, but also enabling new entrants to launch products, services and digital offerings that are attracting more consumers daily.

A crowded and confusing competitive landscape

$15.25 billion
Projected industry spend on digital advertising, 2019

Banking

5,000
Approximate number of financial institutions taking deposits and issuing loans and credit cards to consumers

4,000
Approximate number of FinTech firms offering personal financial management, deposits, lending and payments

$690 billion
Projected 2020 revenue pools for:

$70 billion	Deposits
$140 billion	Credit cards
$180 billion	Mortgages
$300 billion (auto, student, personal, other)	Lending

Wealth management

13,000
Approximate number of large and boutique firms offering wealth and investment management and financial planning services

33%
Total US consumer assets managed by 40 of these firms

1,100
Approximate number of FinTech firms offering wealth management and advice

$210 billion
Projected 2020 revenue pool for fees on investment and financial advice

Insurance

1,100
Approximate number of firms issuing insurance policies and/or annuities, including property and casualty, life and retirement

2,800
Approximate number of FinTech firms offering P&C and life insurance

$515 billion
Projected 2020 revenue pools for:

$240 billion	Life insurance
$275 billion	Annuities

Source: SNL Financial, EY Horizon Scanner Database, EY Analysis

More firms are advertising more products across virtually all media (including digital) with the sole purpose of positioning themselves as the center of a consumer's financial life. The result is an industry that appears more fragmented and more confusing to consumers than ever before.

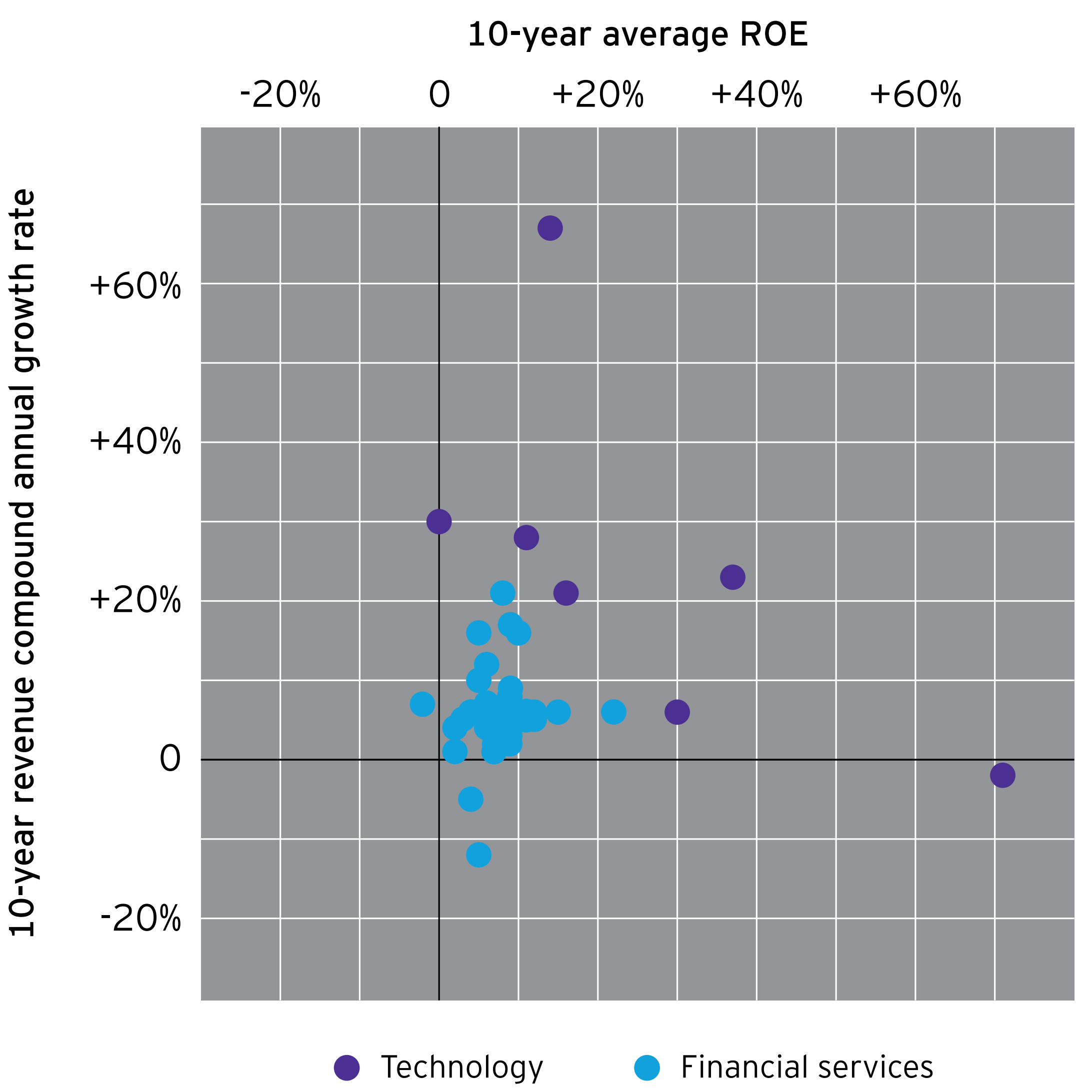
Playing a zero-sum game: One limitation of growth strategies focused on products and share of wallet is that they force companies into a zero-sum game. This mode of competing also makes it very difficult to distinguish brands and value propositions.

To illustrate, we analyzed the financial performance of the top 30 financial institutions and top 7 technology firms, looking at 10-year average revenue growth rates plotted against 10-year average return on equity (ROE) (*see Figure 4*). It is clear that technology platform firms operate on the efficient frontier of value creation and distinctive competitive advantage, while financial institutions are bunched together in a pack that is undistinguishable in terms of performance.

The consumer financial services industry is simply not generating alpha. In fact, the growth rate of financial services firms is most highly correlated to overall GDP growth, which signals that the trajectory of the general economy is a primary driver of financial services growth rather than any true distinctive source of competitive advantage.

Figure 4

Value creation comparison: financial services vs. technology



Acting the same while wanting to look different: The paradox here is quite simple: more firms look the same, while marketing how different they are. However, very few firms have changed anything fundamental about their value propositions. Firms seek to be distinctive by offering similar products, albeit with more bundling and more digital engagement for greater access and convenience.

In one sense, convergence can be viewed as a positive — that is, as progress toward the goal of serving consumers more holistically and in ways that help them live better lives. However, outside of general marketing campaigns and brand refreshes, the industry has changed little. The business model is still driven by products. The strongest incentives at most firms are still oriented to product-centric profit pools. The classic "innovator's dilemma" scenario applies to most financial institutions: how to create new value for consumers without eroding or cannibalizing existing business.

In one sense, convergence can be viewed as a positive — that is, as progress toward the goal of serving consumers more holistically and in ways that help them live better lives. However, outside of general marketing campaigns and brand refreshes, the industry has changed little.

4 The digital paradox: a digital-first world still requires human interaction.

The digital-first ecosystem: The dominance of digital consumer ecosystems is yet another "megatrend" reshaping the future of financial services, as it has in other industries. The consumer ecosystem is no longer *becoming* digital; digital *is* the ecosystem. Consider how invisible technology and pervasive data reduce friction in our lives and how we optimize routine behaviors through gamification.

Artificial intelligence evaluates huge numbers of products and services and then suggests those most likely to interest us. We then rate those offerings so the algorithms grow more effective. From nutrition and exercise, to transportation, sports and entertainment, we seamlessly connect to a sophisticated infrastructure of technologies that monitor our situation, ask us for information and nudge us to improve continuously. We pay to access what we want — precisely when, where and how we want it.

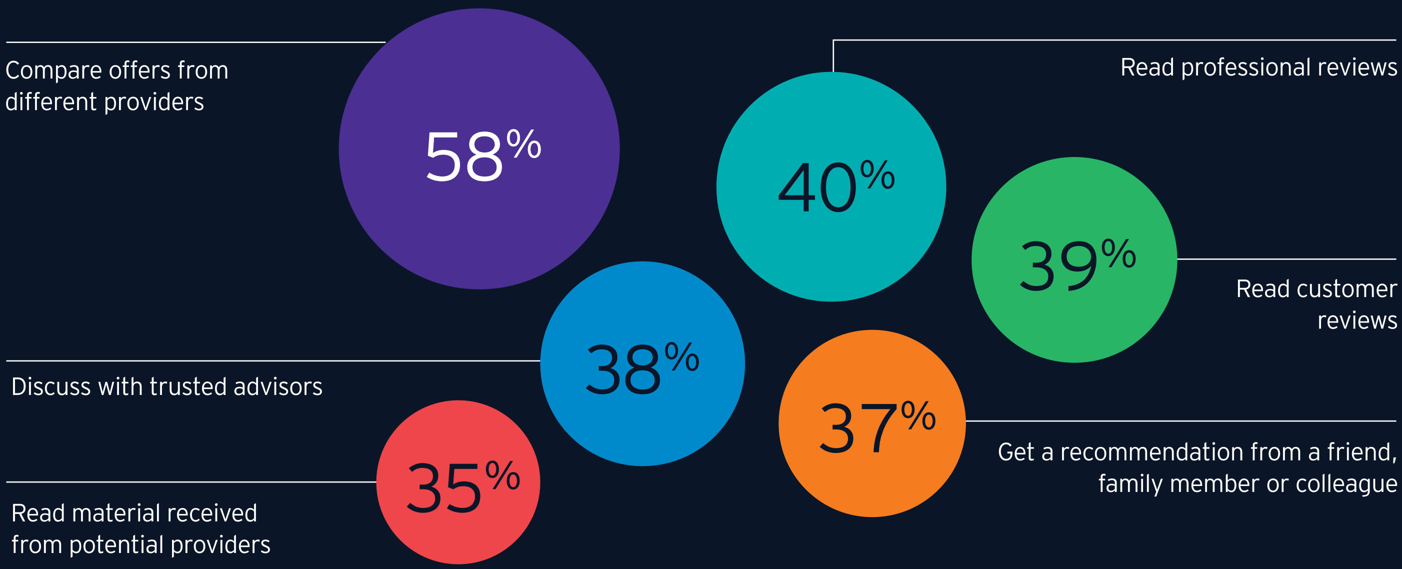
Lifestyle and self-expression are becoming more important than products. For example, many consumers will soon cease financing their automobiles; instead, they will access the vehicles they want, for the period of time they want, through on-demand subscriptions. This is the next wave of mobility, an eventuality that the leading automotive brands have been preparing for actively for several years.

The traditional financial consumer: While most aspects of daily life are intertwined with digital experiences, consumers still prefer a combination of digital and human-centered experiences when dealing with financial matters. For example, our NextWave research shows that consumers prefer to shop in fairly traditional ways, including consulting with friends, family or advisors when making decisions about purchasing financial products. However, in other facets of financial life, consumers have adopted a digital-first mentality, with the data showing more than 50% of all consumers now actively using digital payment products *(see Figures 5 and 6)*.

The human-digital conundrum: Financial services firms face a major strategic conundrum in seeking the right balance of digital and human interaction. They must deliver the fast, easy, convenient and frictionless experiences that consumers expect and offer human input and guidance that consumers value when making important financial decisions. Further, banks, wealth managers and insurers need to seamlessly integrate digital and human engagement and embed their services into the broader digital ecosystem in which consumers engage daily.

Figure 5

The top six ways consumers research and shop for financial products



These are extremely difficult challenges, and they point to existential questions about the future role of financial services firms. Specifically, how will firms:

- Sell products when consumers stop shopping?
- Use invisible technology and data to pivot from frictionless transactions to seamless engagement, while ensuring consumer confidence and trust?
- Sell consumers on value tied to personal needs and desires vs. product features?
- Bring the cognitive platform experience to the digital ecosystem to create stickiness and long-term value for consumers?
- Embed personal insights into daily digital experiences to positively influence how consumers act and help them live financially healthier lives?
- Engage consumers in new ways when they no longer care or think about the products or transactions?

Figure 6

Percentage of consumers who report regularly using digital payment products

(either through their bank or a FinTech firm)

18–24	25–34	35–49	50–64	65+	Total
74%	61%	60%	53%	38%	53%

Mass market	61%
Mass affluent	51%
High net worth	54%

Three hypotheses that will lead to the reframing of consumer financial services

Considering the paradoxes that have shaped the current state of the consumer finance ecosystem, we set out to determine what the industry will look like five years from now in light of evolving consumer needs and expectations, rapidly emerging threats to individual privacy and security, and the exponential acceleration of technology change.

Our research underscores a major overall prediction: change in the next era of consumer financial services will be exponential – not incremental – and will reshape the industry in ways fundamentally different from the last 10 years of change.

1 Shifting trust dynamics will reshape the US financial landscape and prompt the movement of $11.3 trillion in assets during the next five years.

2 AI-driven financial health platforms will become consumers' "personal financial operating systems."

3 Consumer finance will become the next subscription model, unbundling products and re-bundling personalized and holistic value propositions based on life events.

How we tested our hypotheses

Our NextWave research was designed to be 20% qualitative and 80% quantitative. The key qualitative survey insights appear throughout this report. To quantitatively test our primary hypotheses, we ran a series of prediction models on a proprietary conjoint simulator platform to estimate the impact on consumer demand for a range of value proposition features. The demand is measured by share of preference, an output metric of conjoint analysis. See page 52 for a more detailed explanation of the research method used for this survey.

In the conjoint survey, we defined financial value propositions as composed of 74 distinct features and 173 different attributes. The features incorporated provider types, financial products (26 in total), personalization and channel options, and attributes related to trust, transparency and financial wellness.

To test the various scenarios, we established a "base case" representing current value propositions and offerings, as defined by the features and options listed above. For the sake of comparison, the research parameters assumed that each provider offers the baseline set of products and service offerings core to their primary business. For example:

- Banks offer spending, saving and borrowing products
- Wealth managers offer investment and advisory products
- Insurers offer a range of insurance products

Each also offers a limited number of other products from the other subsectors of financial services.

Based on respondents' selections of PFSPs, we modeled a baseline share of preference for each industry segment and its existing customer base (labeled "PFSP" in the charts) and from the overall consumer population (labeled "all consumers" in the charts).

We also established baseline share of preference scores for each provider type across consumer segments (three wealth tiers and four age groups). Share of preference figures are meaningful only when the incremental improvements from different value propositions can be identified. The deltas represent the opportunities to create value (i.e., generate alpha).

To define those deltas, we ran distinct sets of comparison models to calculate share of preference differences from current base cases to modeled scenarios (as described in the hypothesis sections). In certain instances, we leveraged data based on a mathematical technique called MaxDiff, which calculates importance scores for multiple items and is often used in conjunction with conjoint analysis.

The quantitative findings in this paper come from controlled experiment simulations that hold many features constant. We did this to generate broad insights about each hypothesis as opposed to testing every possible option (e.g., product mix, value mix, pricing).

The true power of simulation in general (and the platform we have built in particular) is in the ability to model highly complex scenarios that assume different competitive responses and offers.

1

Three hypotheses

Shifting trust dynamics will reshape the US financial landscape and prompt the movement of $11.3 trillion in assets during the next five years.

Beyond the trust paradox — that consumers trust their primary financial services providers but do not trust the financial services industry overall — our NextWave research clarifies three realities related to trust:

1. Consumers have specific expectations for the value they will receive in return for sharing personal information with their PFSPs.
2. Consumers need assurances beyond data protection and security if their financial institution wants to use their data to offer new benefits.
3. Trust features add significant value to financial value propositions, increasing the likelihood of new customer acquisition and deepening existing customer relationships.

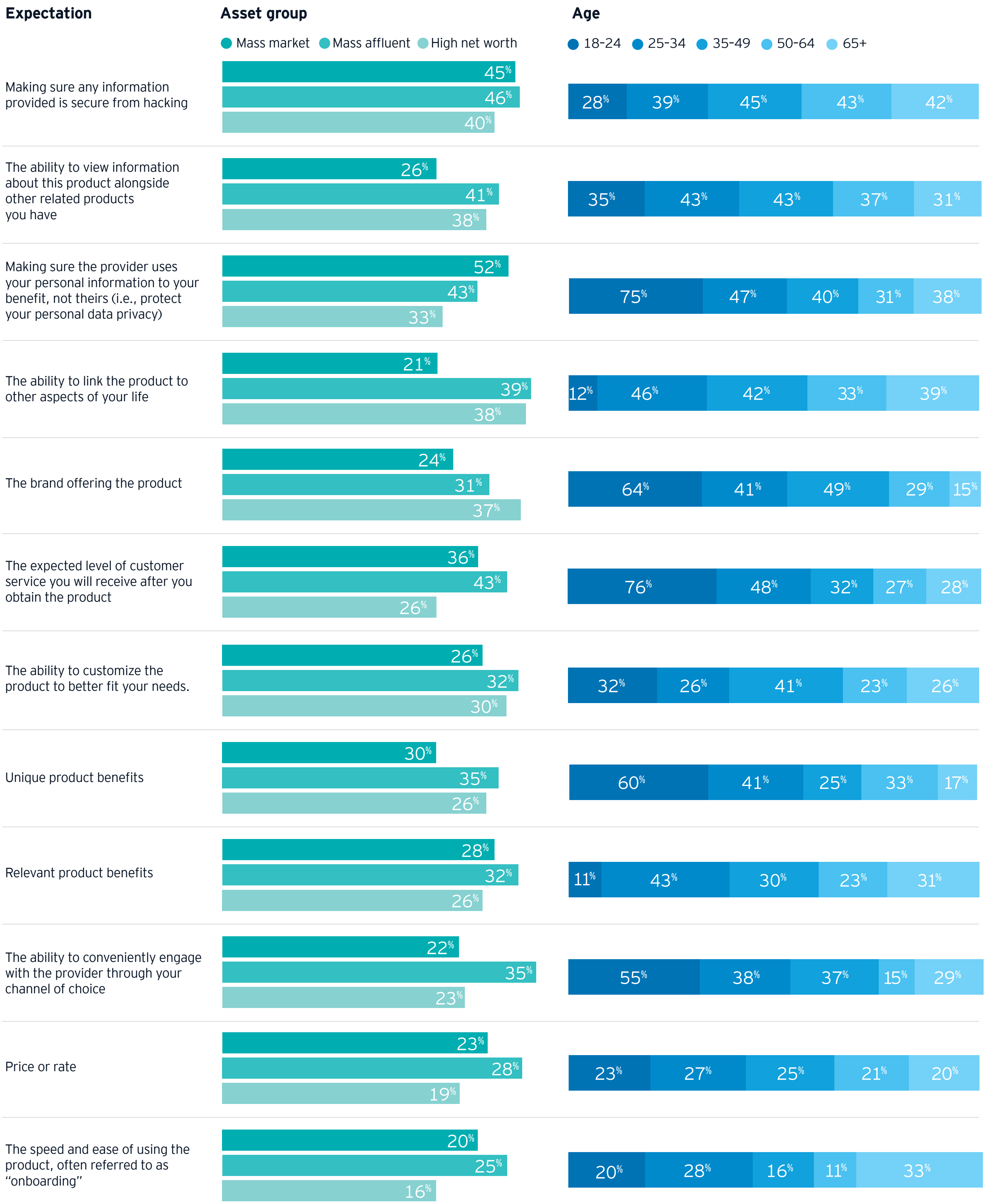
Consumers expect value in exchange for sharing their information

More than 60% of all consumers are comfortable sharing personal information with their PFSP without specific assurances. This signals an inherent trust that most consumers place with their financial providers. But data-sharing is not a one-way transaction; as with any value exchange, consumers expect specific value in return.

We asked consumers to identify the top three features and capabilities where financial services providers must excel to drive their willingness to engage (*see Figure 7*).

Figure 7

Features and capabilities where providers must excel to drive consumer engagement



These responses present important insights and implications:

- The 18–24-year-old segment cares most about customer service (76%) and about data privacy (75%). The implication is that providers will use customer data for the customer's benefit, not for the benefit of the provider. They also highly value the brand (64%), obtaining unique product benefits (60%) and convenience (55%). They seem to care least about relevant (i.e., general) product benefits (11%), ecosystem aggregation (12%) and ease of onboarding (20%). Interestingly, security is also in the bottom five of all features (28%).
- The 25–34-year-old segment also rates security in the bottom five of all features (39%), while valuing customer service (48%), data privacy (47%) and ecosystem aggregation (46%).
- The remaining age-based segments are more evenly distributed in their preferences, but all rate security as their top feature.

Looking at the differences among wealth tiers, the mass-market segment values privacy the most (52%). There appears to be a correlation between wealth tier and importance of privacy (in terms of how data is used to benefit consumers). Conversely, the mass market seems to care least about brand (24%), though the high-net-worth segment values brand as one of the top four features (37%).

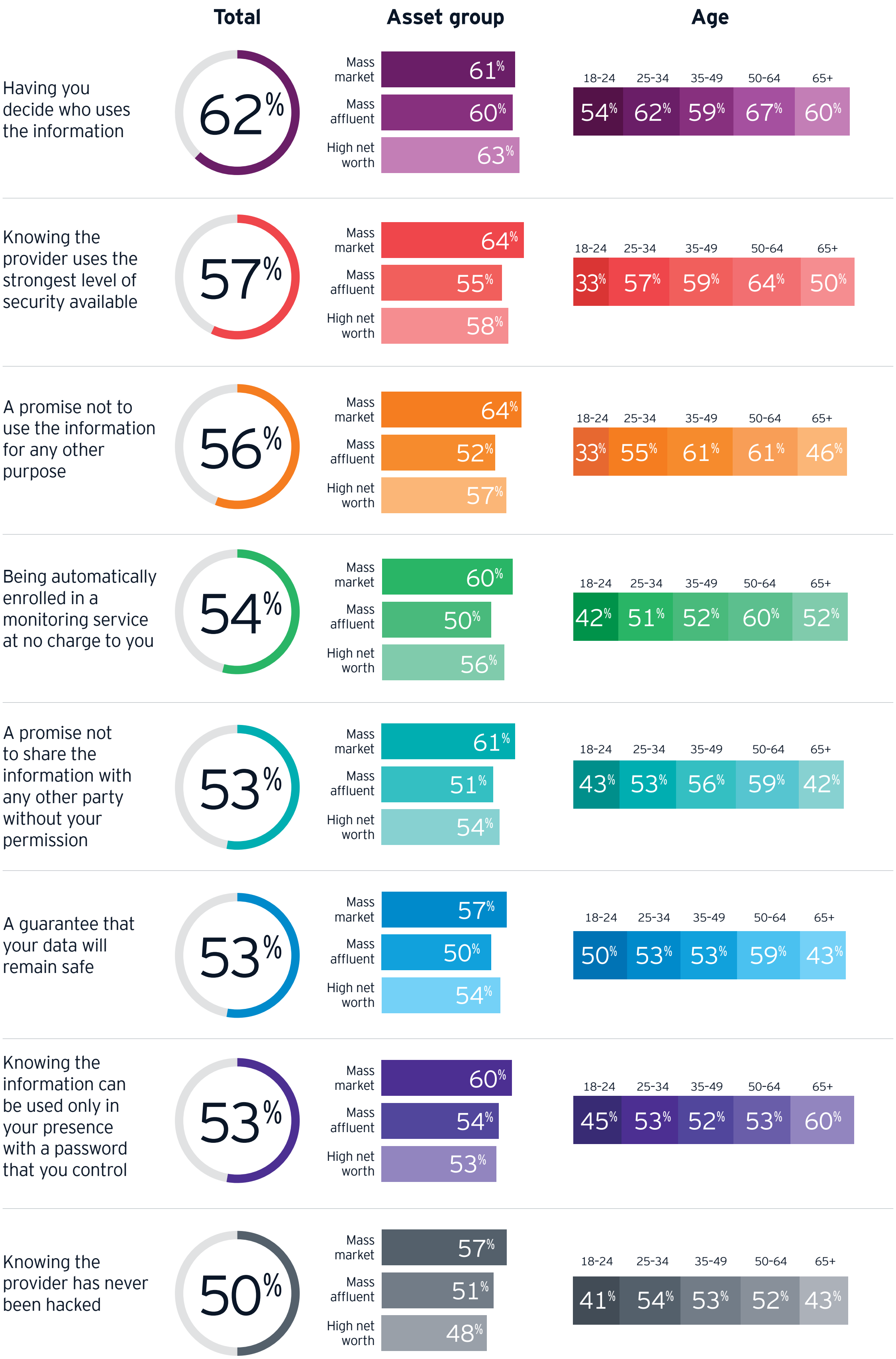
Consumers need assurances to share more information in exchange for more value

The survey asked about assurances consumers would need if their financial provider wanted to collect and use more of their information to offer more personalized advice and services. Respondents were asked to evaluate a series of actions that financial providers could take to increase their comfort level with sharing more information than they do today. The choices mixed both current state factors, as well as those not currently offered in the US market (*see Figure 8*).

- Across age groups and wealth tiers, an option that consumers do not currently have ranked as the most or second-most important: the ability to decide who uses the information. Additionally, security is consistently ranked as a top action, though not among 18–24-year-olds.
- The relatively even distribution of responses suggests that consumers want their providers to commit to a more holistic approach to data privacy, protection and usage. No single action alone would make consumers more comfortable sharing more information with their financial providers.

Figure 8

Provider actions to increase consumers' comfort in sharing sensitive information for financial health dashboard



A new approach to trust will put $11.3 trillion of assets in motion over the next five years

We ran a set of simulations that varied only trust features (holding all other variables constant) to understand the impact that trust will have on consumer demand. The feature options selected assumed the boldest set of features and capabilities, including full price transparency, hyper personalization and the ability to own and control use of one's personal financial data (similar to what is mandated by GDPR). We then compared the share of preference scores of the new trust bundle against the base case of current offerings for each financial services industry subsector (*see Figure 9*).

Closer analysis of these results yields key insights:

- **Taking a bold and holistic approach to trust will significantly increase consumer demand:** If trust is treated as a strategic bundle and firms move boldly past today's paradigm to innovative features, breakthrough performance gains are possible. The research shows that all but one consumer subsegment (18–34-year-olds naming life insurers as their PFSP) will see significant increases in consumer demand.
- **On average across consumer segments, one single feature accounts for almost 50% of the increase in total share of preference:** Giving a consumer ownership and discretion over the use of their personal financial data, now mandated by GDPR, is not currently an option in the US market.
- **First-movers will reap the rewards:** In this scenario, we assumed that all industries offered a new trust bundle all at the same time and with the same richness of features (an unlikely scenario). Our simulation indicates that first-movers will reap the rewards because moving share of preference against both an institution's own base case, as well as against the base case of peers and competitors, results in a significant increase in demand. Specifically, it unleashes opportunities to deepen existing relationships and acquire new customers.

The bottom line: because consumers across all age groups and wealth tiers care about trust features, bold action is likely to be rewarded.

So how did we calculate that $11.3 trillion of assets will be in motion during the next five years? Analyzing the delta between industries and customer segment groups identifies where true alpha can be created. Using more sophisticated analyses and simulations, we calculated how shifts in share of preference across industries will impact specific asset pools. These pools include deposits, card transactions, assets under management and all consumer loans.

> We believe that
>
> $11.3 trillion
>
> is a conservative estimate that understates the true scope of the opportunity. Firms that master the shifting dynamics and new realities of trust will likely bring net new assets into the industry for the first time.

Figure 9

Incremental share of preference earned by offering a holistic trust bundle

All PFSP

Mass market	Mass affluent	High net worth	18-34	35-49	50-64	65+
37.7%	33.8%	35.1%	21.7%	31.6%	37.8%	40.6%

Global/national bank

	PFSP	All consumers
Mass market	37.1%	36.7%
Mass affluent	37.0%	33.1%
High net worth	32.7%	34.3%
18-34	22.7%	20.5%
35-49	37.9%	31.3%
50-64	32.4%	37.2%
65+	42.9%	39.5%

Regional bank

	PFSP	All consumers
Mass market	40.6%	37.5%
Mass affluent	31.5%	33.7%
High net worth	28.5%	35.2%
18-34	29.3%	21.4%
35-49	27.9%	31.8%
50-64	33.0%	38.2%
65+	35.6%	40.3%

Wealth manager

	PFSP	All consumers
Mass market	39.0%	37.4%
Mass affluent	38.2%	33.8%
High net worth	43.0%	35.3%
18-34	25.9%	21.1%
35-49	31.4%	31.7%
50-64	46.0%	38.5%
65+	44.8%	40.5%

Life insurer

	PFSP	All consumers
Mass market	23.0%	37.6%
Mass affluent	22.6%	34.3%
High net worth	22.0%	36.3%
18-34	2.1%	20.3%
35-49	14.7%	32.3%
50-64	38.2%	39.8%
65+	25.0%	41.4%

P&C insurer

	PFSP	All consumers
Mass market	41.2%	37.3%
Mass affluent	23.5%	33.1%
High net worth	26.4%	35.3%
18-34	14.3%	20.4%
35-49	29.9%	31.7%
50-64	17.1%	38.0%
65+	38.8%	40.4%

Technology firm/platform

	PFSP	All consumers
Mass market	n/a	36.9%
Mass affluent	n/a	32.6%
High net worth	n/a	35.2%
18-34	n/a	19.7%
35-49	n/a	31.8%
50-64	n/a	37.8%
65+	n/a	39.9%

PFSP: Customers that identified that institution type as their PFSP

All consumers: All survey respondents

**Very few consumers identified a technology firm/platform as their PFSP; therefore, data was insignificant for statistical analysis.*

2

Three hypotheses

AI-driven financial health platforms will become consumers' "personal financial operating systems."

The financial health paradox — consumers' prevalent belief that they are financially healthy, despite ample data showing that they are not — represents an opportunity for the industry to close the gap between perception and reality. Our survey analysis, market research and conjoint simulations highlight three main findings:

1. Though most consumers want to improve their financial health, significant complacency is a barrier.
2. Financial firms do not currently offer daily, relevant, interactive engagement to change consumer behavior.
3. AI-driven financial health platforms will increase consumer demand across the industry, but threats loom from technology disruptors.

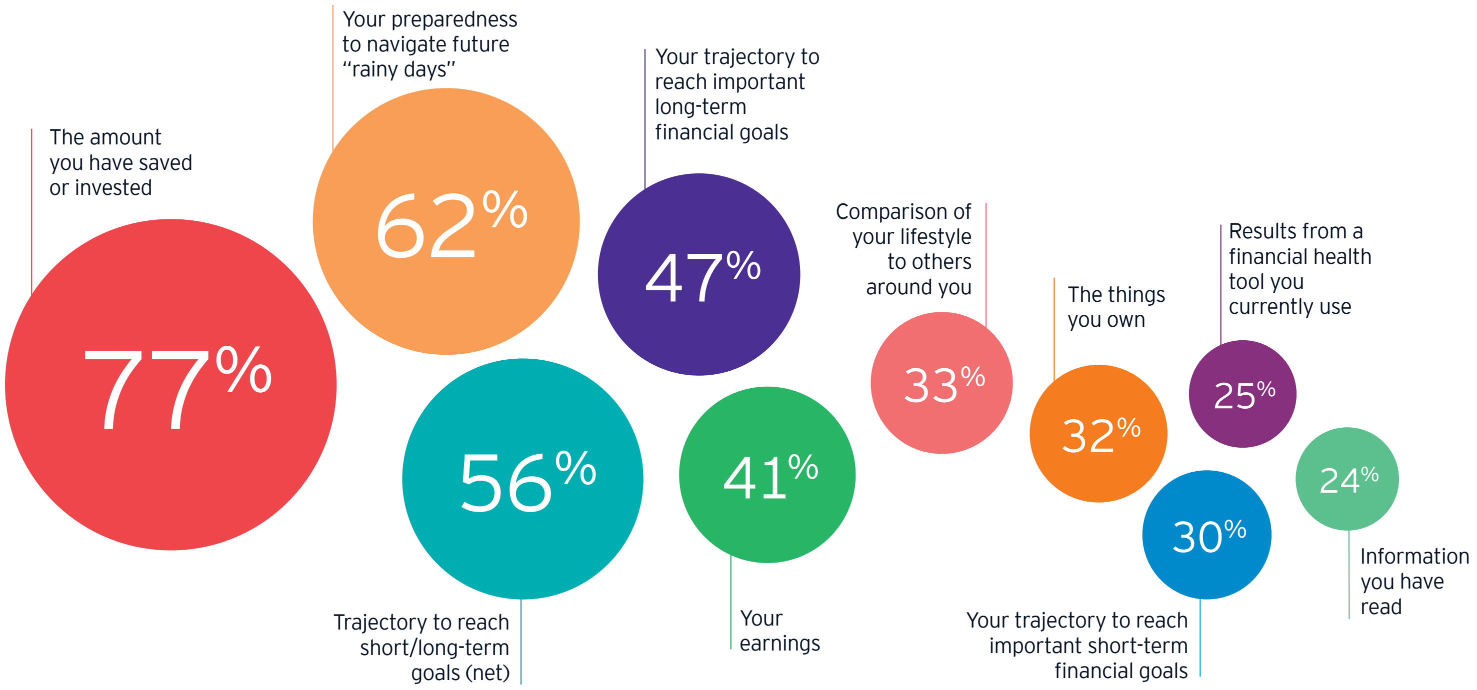
Consumers have simple perceptions about their financial health, but remain complacent for complex reasons

Several factors shape the perceptions of the 83% of consumers who rate themselves as financially healthy. Consistently across age groups and wealth tiers, consumers cite savings, investments, rainy-day funds and the ability to meet short-term life goals and long-term financial goals as the primary factors influencing their self-assessment (*see Figure 10*).

This provides a useful lens into the stated beliefs of consumers, the ones that predominantly shape the conscious perceptions about consumer financial well-being.

Figure 10

Top 10 factors shaping consumer perceptions of financial health

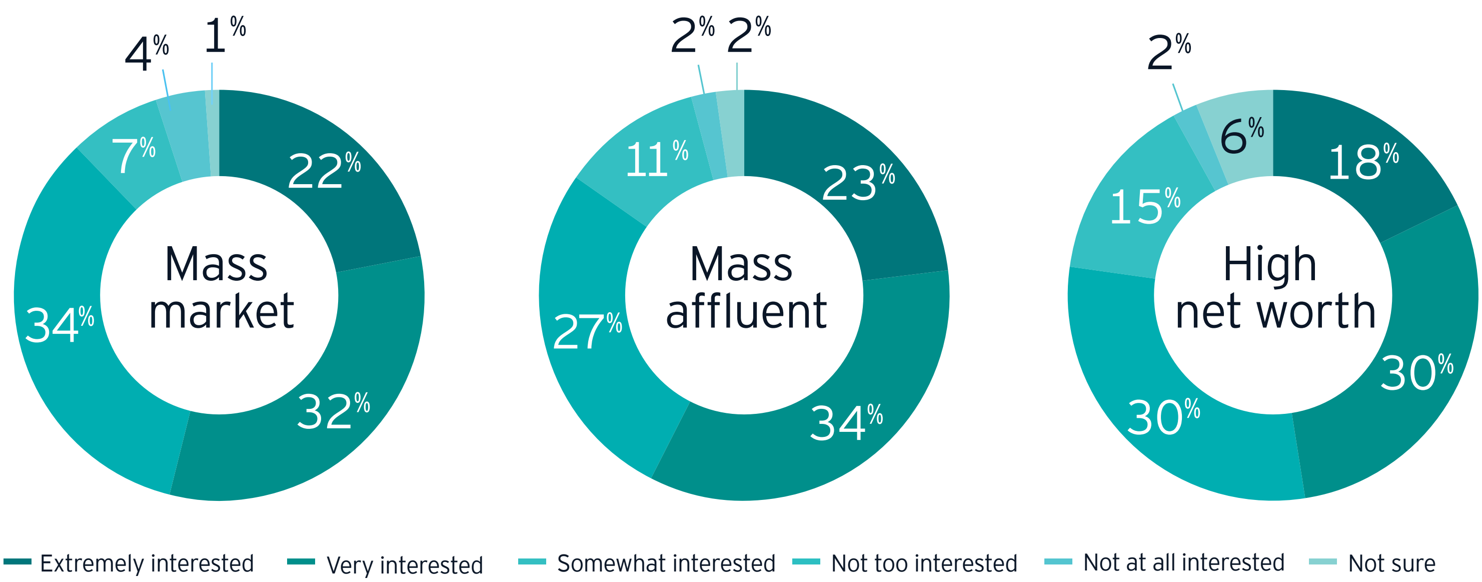


Even though the vast majority of consumers rate themselves as financially healthy, most still want to improve their financial health (*see Figure 11*).

- The 25-34- and 35-49-year-old groups are most likely to be extremely/very interested in improving financial health.
- Major life events also play a role in prompting people to improve financial health. Consumers identified four major life events as the ones that drive the most interest in improving health: getting married (79%), buying a home (66%), planning to send a child to college (62%) and starting a first job (61%).
- Even high-net-worth individuals are interested in improving their financial health; 48% are extremely/very interested, and 30% are somewhat interested.

Figure 11

Interest in improving financial health by asset group



Note: due to rounding, figures do not equal 100%

Interest in improving financial health by age group

18-24	25-34	35-49	50-64	65+
96%	95%	87%	78%	70%

The analysis was structured around the emotional considerations that underpin financial decisions at key life moments. Respondents were presented with five positive and five negative emotions and asked to choose the ones that represented the most and least important in a series of different financial scenarios (*see sidebar*).

The results reveal a stark reality. Across wealth tiers and age groups, consumers show a high degree of emotional ambivalence or negativity about the financial decisions relative to the most important moments in their life (*see Figure 12*).

Consider that:

- 50% of consumers ages 18–49 (which includes Generation Z, millennials and Generation X) are emotionally disengaged or turned off by financial matters. Considering that this population represents 80% of total US consumers, financial institutions face a major challenge as they seek to deepen customer relationships and attract new customers among this cohort.
- Two life events elicit a 3:1 ratio of positive to negative emotion: retiring and starting a first job.
- Three life events elicit a 2:1 ratio of positive to negative emotion: empty-nesting and paying for a major event, such as a wedding.
- Two life events elicit a 1:1 ratio of positive to negative emotions: preparing to send a child to college and getting married.
- Two life events elicit an emotional ratio skewed heavily negative: caring for sick family members and having an adult family member move in.

Emotional states

+

Provides me a sense of achievement

Makes me feel more confident

Rewards me

Reduces stress and uncertainty

I feel like I am doing something exclusive

–

Increases stress and anxiety

Fear of missing out (FOMO)

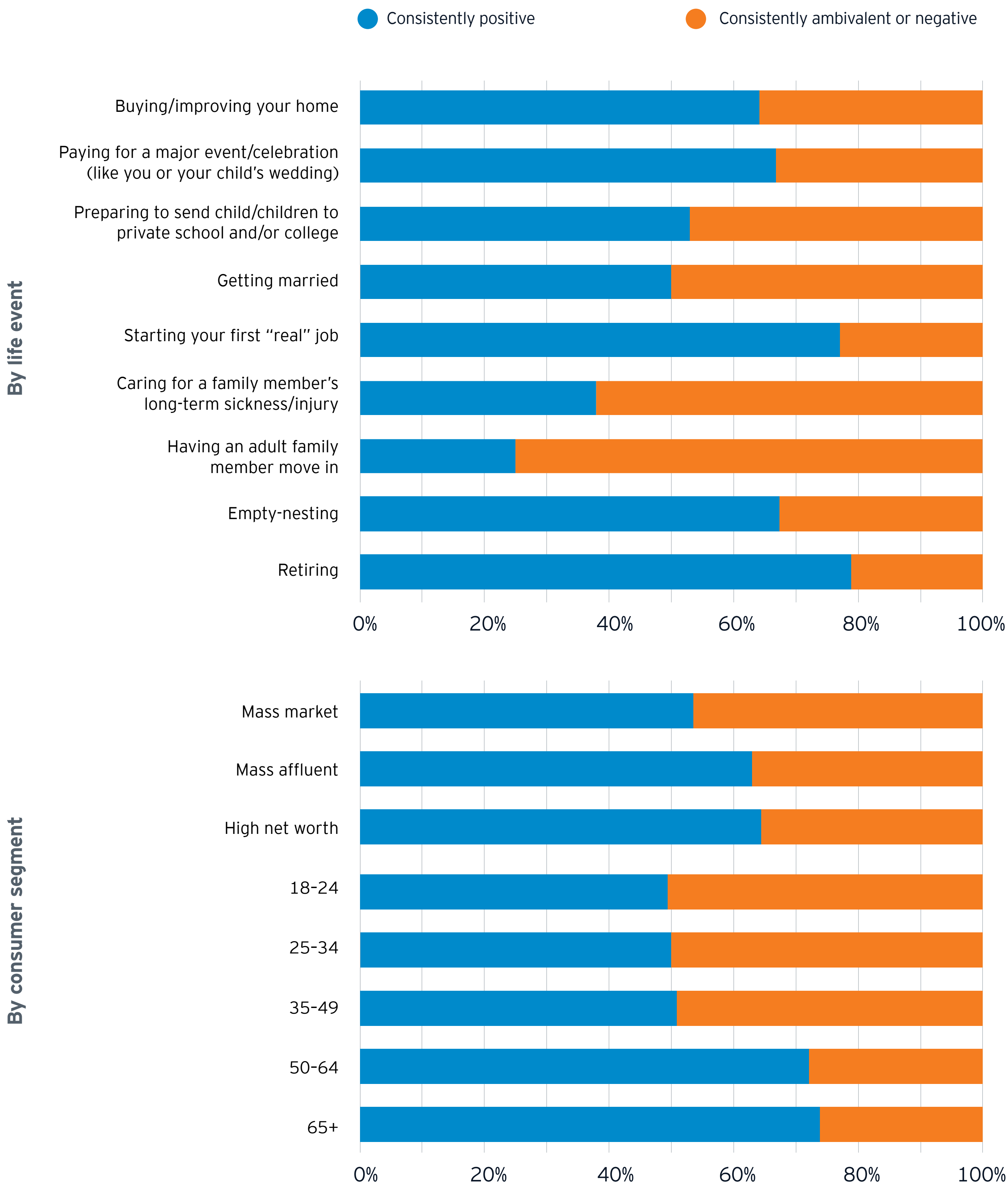
Makes me feel frustrated

Regret and uncertainty

Makes me feel disappointed

Figure 12

Emotional states that influence financial decisions



AI-driven financial health ecosystems will increase consumer demand, but threats loom for incumbents

We ran a series of conjoint simulations introducing the concept of an AI-driven financial health platform — what we refer to as the consumers' "personal financial operating system." In the survey, we modeled this platform capability through a series of features capturing the essence of our vision. We describe it briefly below to outline the bolder context we tested *(see below)*.

Our simulation assumed that all firms develop and implement a bold platform in line with our specifications and all at the same time (an unlikely scenario, but one that reveals several insights). The consumer demand estimations were then compared against base case (holding all other features constant) to create the share of preference deltas (*see Figure 13*).

A personal financial OS: the platform for financial wellness

A new AI-driven financial health platform will enable more relevant daily interaction with consumers in ways that ultimately will change financial behavior. Non-transactional financial decision-making is for most consumers highly personal, emotional and complex. Thus, it requires a combination of dynamic insight and human advice.

As we envision it, a financial well-being platform will be a comprehensive, immersive, interactive and connected digital ecosystem using all available data about consumers' financial lives, goals, social styles and personal preferences to produce insight and to promote daily decisions that lead to improved financial well-being.

Gamified experiences will promote behavioral change. For example, the platform would provide a dynamic wellness score that adjusts in real time based on spending, saving, borrowing, investing and protection needs and activities. Users can see how they rate against a relevant peer group and which factors hurt or help their overall wellness. They'd also be able to access a range of curated services, education tools and other services and experiences and earn benefits and rewards for using them.

At the core of the platform would be AI-driven advice that contextualizes suggestions, nudges and recommendations. Sophisticated APIs would enable the platform models to run in the background while the user is engaged in other digital experiences (e.g., shopping, travel, games).

A personal financial OS is not just another financial app. We believe it will become as ubiquitous as the ecosystems consumers engage for entertainment, health, commerce, transportation and lifestyle.

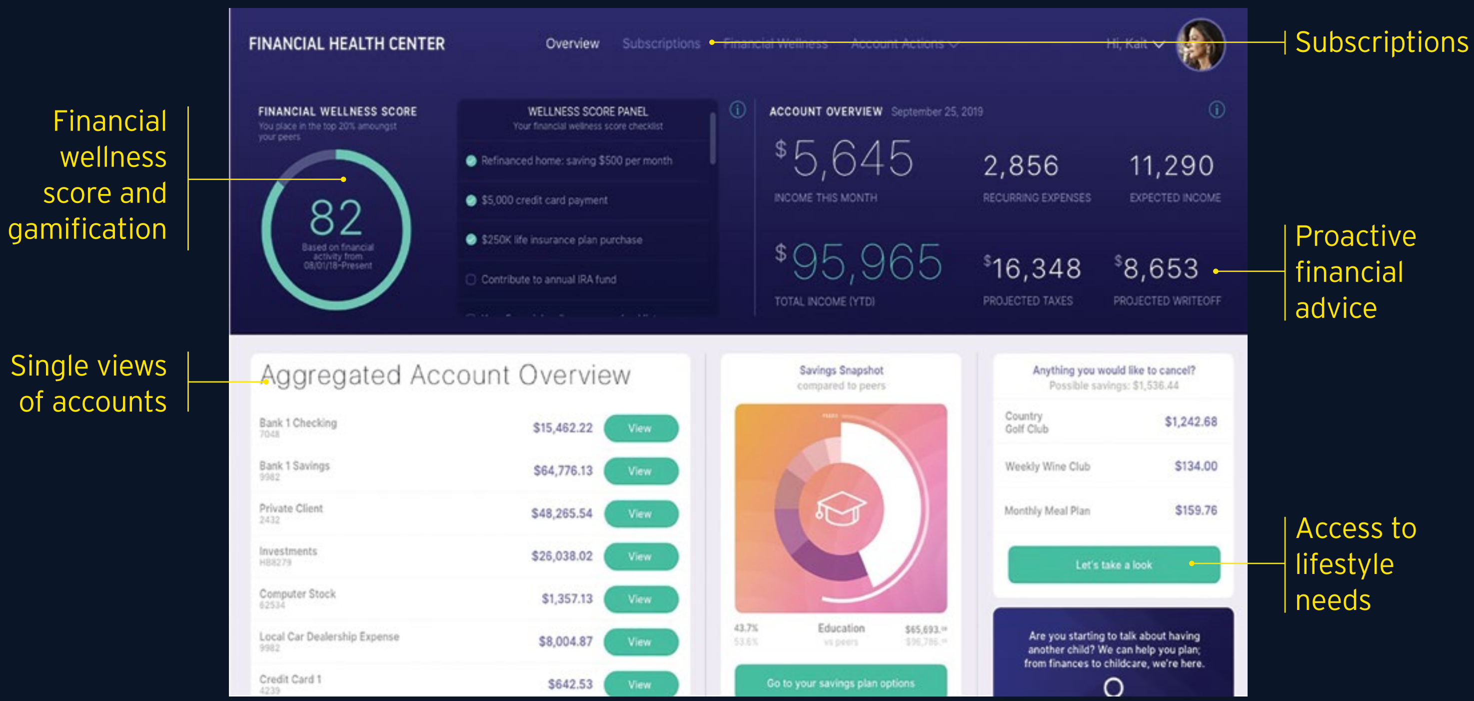


Figure 13

Incremental share of preference earned by offering a new AI-driven financial health platform

All PFSP

Mass market	Mass affluent	High net worth	18-34	35-49	50-64	65+
6.5%	6.4%	7.3%	8.4%	8.0%	5.9%	6.3%

Global/national bank

	PFSP	All consumers
Mass market	5.9%	6.3%
Mass affluent	7.3%	6.0%
High net worth	9.3%	6.7%
18-34	8.2%	6.9%
35-49	10.4%	7.8%
50-64	6.8%	5.6%
65+	5.2%	6.0%

Regional bank

	PFSP	All consumers
Mass market	9.0%	6.2%
Mass affluent	8.1%	6.0%
High net worth	9.1%	6.9%
18-34	14.4%	7.0%
35-49	10.4%	7.6%
50-64	5.1%	5.8%
65+	5.0%	6.3%

Wealth manager

	PFSP	All consumers
Mass market	3.8%	6.3%
Mass affluent	5.4%	6.1%
High net worth	7.5%	7.0%
18-34	6.8%	7.0%
35-49	5.0%	7.7%
50-64	7.0%	5.9%
65+	8.0%	6.2%

Life insurer

	PFSP	All consumers
Mass market	5.0%	6.1%
Mass affluent	0.6%	6.1%
High net worth	4.7%	7.3%
18-34	1.7%	6.9%
35-49	3.1%	7.9%
50-64	4.3%	6.2%
65+	4.3%	6.4%

P&C insurer

	PFSP	All consumers
Mass market	5.4%	6.0%
Mass affluent	4.3%	5.9%
High net worth	2.4%	7.0%
18-34	2.8%	6.8%
35-49	4.2%	7.7%
50-64	3.4%	5.9%
65+	2.3%	6.1%

Technology firm/platform

	PFSP	All consumers
Mass market	n/a*	5.8%
Mass affluent	n/a*	5.8%
High net worth	n/a*	6.7%
18-34	n/a*	6.4%
35-49	n/a*	7.3%
50-64	n/a*	5.8%
65+	n/a*	5.8%

PFSP: Customers that identified that institution type as their PFSP

All consumers: All survey respondents

Very few consumers identified a technology firm/platform as their PFSP; therefore, data was insignificant for statistical analysis.

- **Banks:** Regional banks see particularly strong improvements in demand across most segments, the largest being a 14.4% increase in the 18-34 segment, followed by a 10.4% increase in the 35-49 segment. Global banks see large increases in the 35-49 (10.4%), high-net-worth (9.3%) and 18-34 (8.2%) segments. While global banks see moderate improvement in the mass-market segment, regional banks earn a 9% improvement with that segment.
- **Wealth management:** While wealth managers see improvements across all segments, their highest demand improvements are in the 65+ (8%) and high-net-worth (7.5%) segments. In four of the seven segments (mass-market, mass-affluent, 18-34 and 35-39), wealth managers see more improvement in the total consumer population vs. within their existing customer base. This would indicate that consumers that do not currently engage a wealth management firm would be more attracted to firms offering financial health platforms. However, existing customers see less marginal benefit because of existing advisor relationships.
- **Insurance:** The total consumer population offers uniformly higher opportunity than the existing customer base for both life and P&C insurers. This would indicate that insurance firms can use financial health platforms for customer acquisition.

We also wanted to determine what the impact would be if a technology platform provider were to seek first-mover advantage in creating a new consumer personal financial health platform. We ran a set of models that matched tech firms against banks, insurers and wealth managers, using the product base case for each type of firm. We then added the full financial health platform features to the technology platform value proposition and offered the proposition to each subsector's existing customer base capturing the share of preference impact (*see Figure 14*).

- Banks — especially local and regional banks — are most vulnerable to the entry of tech firms. Across all segments, banks would have the most significant risk of losing customers to tech firms, based on tech firms' ability to attract customers to their financial wellness platforms. This assumes that the tech firm could offer consumers access to the same set of products via their platforms as banks could — a very realistic scenario given today's open product ecosystems.
- Wealth managers would see virtually no impact to their customer base if a technology firm tried to attract customers on the basis of financial wellness alone.
- Life insurers show considerable strength against tech platforms in the financial wellness space. This indicates that technology firms would not be able to entice many insurance customers to switch. The same is true for P&C insurers and their customers.

What respondents say

“

This program could be the quarterback of our financial lives. It would be like a trusted advisor.

High-net-worth respondent

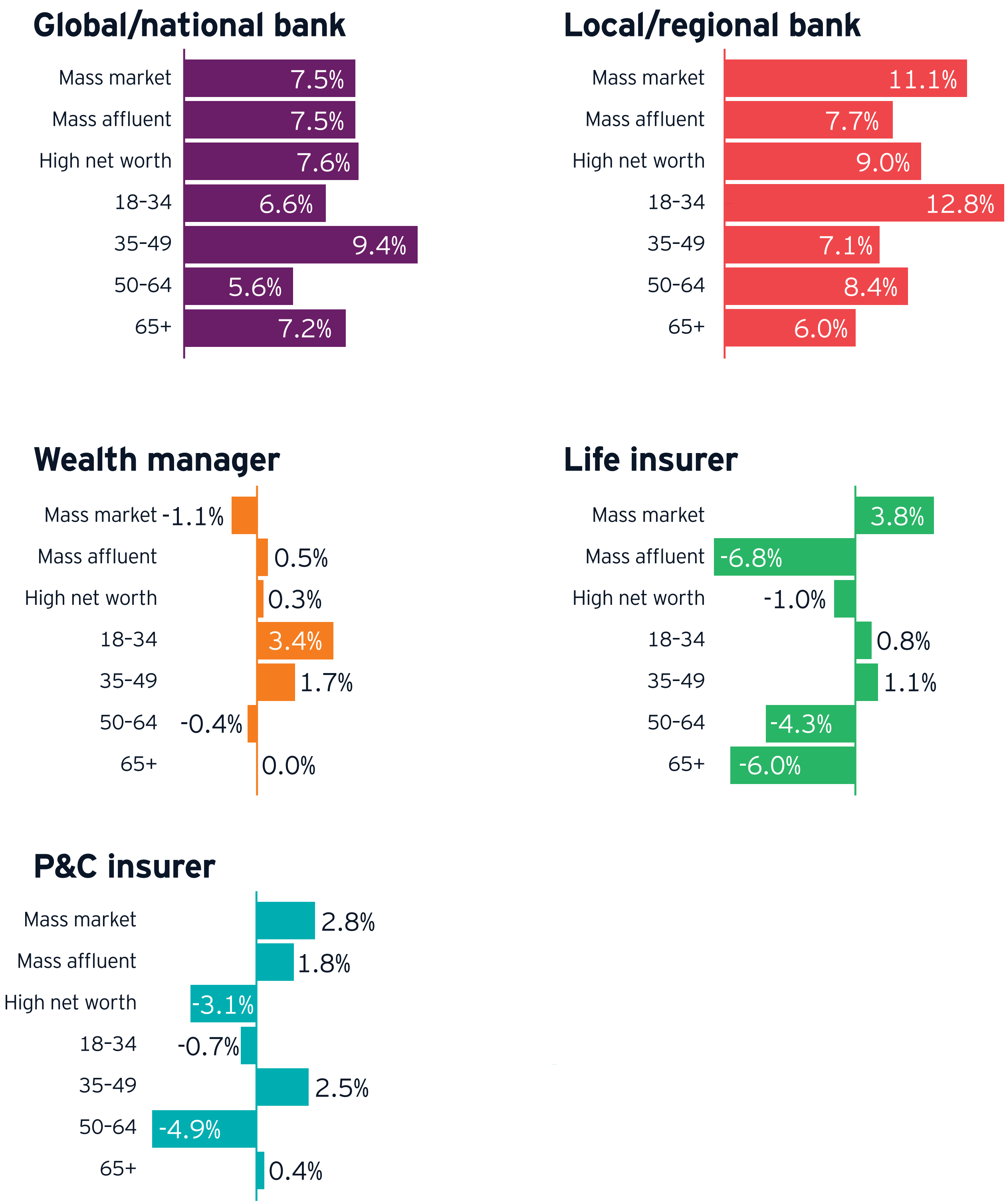
“

We were talking about going to a financial advisor, but if this technology uses AI and has better recommendations, then I'd like to see what it has.

Mass-market respondent

Figure 14

Incremental share of preference earned by a technology firm/platform by offering an AI-driven financial health platform



Three hypotheses

3 Consumer finance will become the next subscription model, unbundling products and re-bundling personalized and holistic value propositions based on life events.

The overall consumer economy has shifted dramatically away from owning and buying to renting and using. The financial services sector has largely avoided this evolution until now. Our research leads us to three primary conclusions relative to subscriptions:

1. Key life events prompt complex financial decisions across all major financial needs, and consumers have a desire to be served more holistically by their financial providers in navigating these decisions.
2. Subscription-based models will be attractive to consumers because they provide easy and convenient access to a comprehensive bundle of products, services and value-added capabilities.
3. Consumers are willing to pay for holistic subscription-based offerings, leveling the playing field between financial firms and technology firms in the battle for market share.

Consumers want to be served more holistically during major life events

We asked consumers to identify the financial needs that would most likely arise in the context of various major life events (39 events in total, of which 9 events yielded the highest frequency of responses). This provides a lens into the complexity of financial decision-making that arises during major life events (*see Figure 15*).

What respondents say

"I would value the guidance to be sure I am completely prepared to start the new journey of my life.

Mass-affluent respondent

Figure 15

Percentage of consumers identifying each product as relevant to life events

Total survey sample

Selected life event	Total	Buying/ improving your home	Paying for a major event/ celebration (like a wedding)	Preparing to send child/ children to private school and/or college	Getting married	Starting your first "real" job	Caring for a family member's long-term sickness/ injury	Empty-nesting	Retiring	Another life event
Savings account	**46%**	71%	61%	48%	51%	61%	40%	32%	28%	43%
Retirement account (e.g., IRA)	**41%**	19%	24%	8%	29%	17%	31%	43%	75%	44%
Checking account	**37%**	58%	57%	38%	45%	54%	30%	31%	20%	34%
Credit cards	**31%**	44%	61%	34%	55%	46%	19%	27%	14%	34%
Brokerage account (commission-based)	**30%**	24%	30%	21%	23%	13%	25%	32%	38%	36%
Managed investment account (fee based on total assets invested)	**29%**	19%	20%	18%	24%	12%	23%	41%	43%	28%
Money market savings account	**26%**	31%	46%	31%	25%	28%	22%	26%	17%	25%
Certificates of deposit	**19%**	22%	22%	26%	27%	1%	21%	22%	14%	24%
Comprehensive financial plan	**16%**	6%	1%	7%	2%	6%	24%	13%	27%	17%
Estate plan/wills/ trusts	**16%**	3%	2%	1%	1%	0%	24%	17%	27%	23%
Long-term care insurance	**14%**	1%	0%	4%	4%	0%	43%	10%	19%	15%
Home mortgage	**10%**	21%	8%	10%	9%	5%	13%	8%	6%	5%
Life insurance	**9%**	1%	1%	7%	17%	13%	13%	13%	13%	6%
Home insurance	**8%**	16%	1%	2%	1%	14%	5%	5%	9%	11%
Digital payment (e.g., Venmo, PayPal, Apple Pay, Amazon Pay, Zelle)	**8%**	5%	25%	7%	19%	19%	6%	13%	4%	2%
Annuity	**7%**	2%	5%	1%	2%	0%	8%	6%	11%	13%
Home equity loan	**6%**	16%	5%	11%	6%	4%	7%	3%	2%	3%
College savings account (e.g., 529)	**6%**	2%	0%	53%	4%	5%	1%	6%	3%	3%
Long-term disability insurance	**6%**	3%	0%	1%	1%	8%	21%	4%	5%	3%
Umbrella insurance	**5%**	3%	0%	3%	4%	1%	5%	6%	8%	12%
Student loan	**5%**	1%	4%	19%	5%	49%	1%	6%	1%	2%
Personal loan	**4%**	5%	6%	13%	16%	17%	4%	2%	1%	0%
Auto insurance	**3%**	0%	0%	4%	0%	7%	2%	2%	3%	8%
Auto loan	**2%**	3%	4%	1%	13%	10%	1%	2%	1%	0%
Personal articles insurance	**1%**	0%	0%	2%	0%	1%	1%	2%	1%	5%
Pet insurance	**0%**	0%	1%	0%	0%	0%	1%	0%	0%	0%

- **Saving and spending needs dominate:** Savings accounts (46%), checking accounts (37%) and credit cards (31%) consistently appear as the top three products across almost all life events.
- **Investment needs are identified across most events:** Brokerage (30%) and managed investment accounts (29%) are priority products, especially for those events that occur later in life, when more focused investment needs arise.

A number of other meaningful differences arise when analyzing results across wealth tiers:

- Mass-market consumers are predominantly focused on saving and spending across all life events, as shown by their high interest in savings accounts (65%), checking accounts (55%) and credit cards (46%). Retirement-focused products do not become prevalent until later-age life events; on average, mass-market respondents identified retirement accounts across 28% of needs, most notably in caring for a sick loved one (29%), empty-nesting (56%) and retiring (66%).
- Mass-affluent and high-net-worth consumers are also cash-driven in terms of saving and spending needs, and both identify investment needs across more life events. Mass-affluent consumers appear more likely to use investment accounts to fund major life events; for example, 33% would pay for major events with a brokerage account, and 37% would pay for a wedding with a managed investment account.
- Across all wealth tiers, comprehensive financial planning is not frequently identified as a relevant financial need. This indicates a lack of integration and relevance between one's financial plan and the more frequent financial decisions that arise in life. We believe that gap can be addressed with the financial health platform vision described in our second hypothesis.

We then asked respondents to rate their interest in a holistic bundle of products in the context of "life event offerings" — that is, a bundle of products curated by their financial provider linked to specific life event needs, rather than purchasing generic financial products from multiple providers (*see Figure 16*).

- Consumers of all ages and asset classes expressed high interest in life event offerings. Those consumers who have experienced a life event in the past 12 months (54%) are more likely to be interested in such offerings than those consumers who have not experienced an event in the past 12 months.
- There is a consistent level of interest across all the 9 highest frequency life events, with a similar increase in interest for those who have experienced a life event in the past 12 months.
- The 18–24 (55%), 25–34 (52%) and 35–49 (57%) demographic groups are most likely to be extremely or very interested in life event offerings.

What respondents say

"

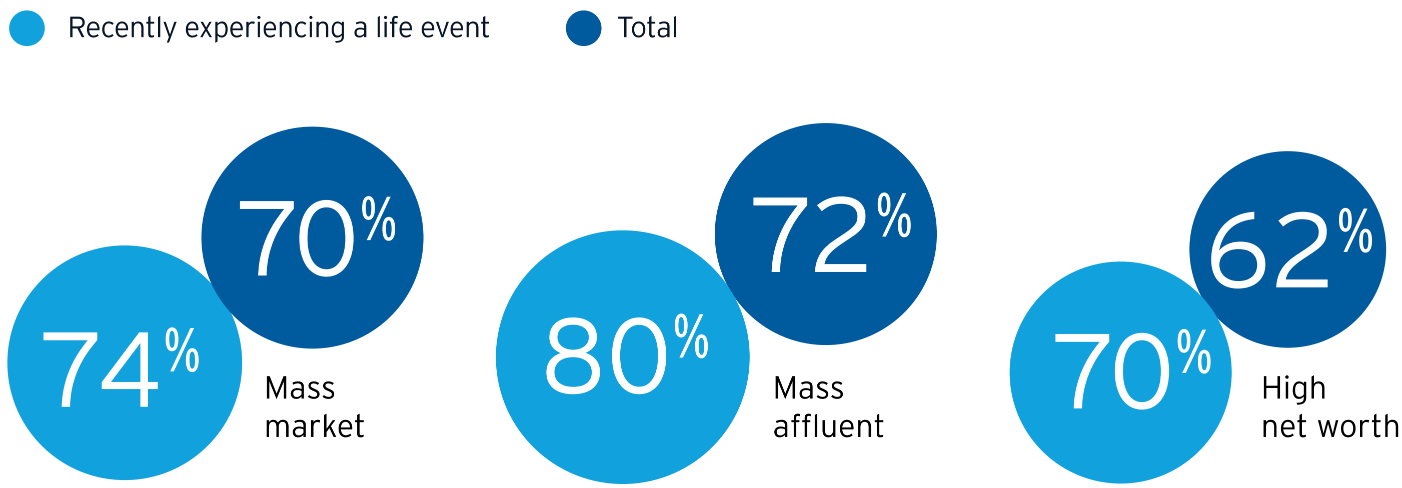
I have an older son who may need a vast array of these types of services within the next few years.

High-net-worth respondent

Figure 16

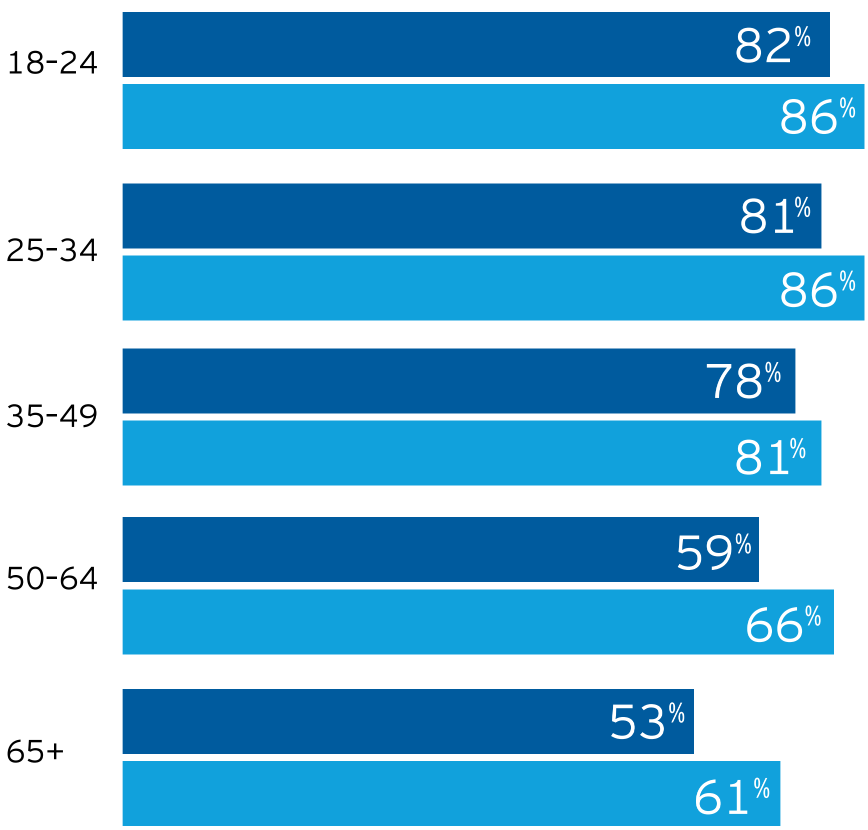
Interest in life-event offerings: extremely, very, somewhat interested — asset groups

(percentage of customers (%)



Interest in life-event program: extremely, very, somewhat interested — age groups

(percentage of customers (%)

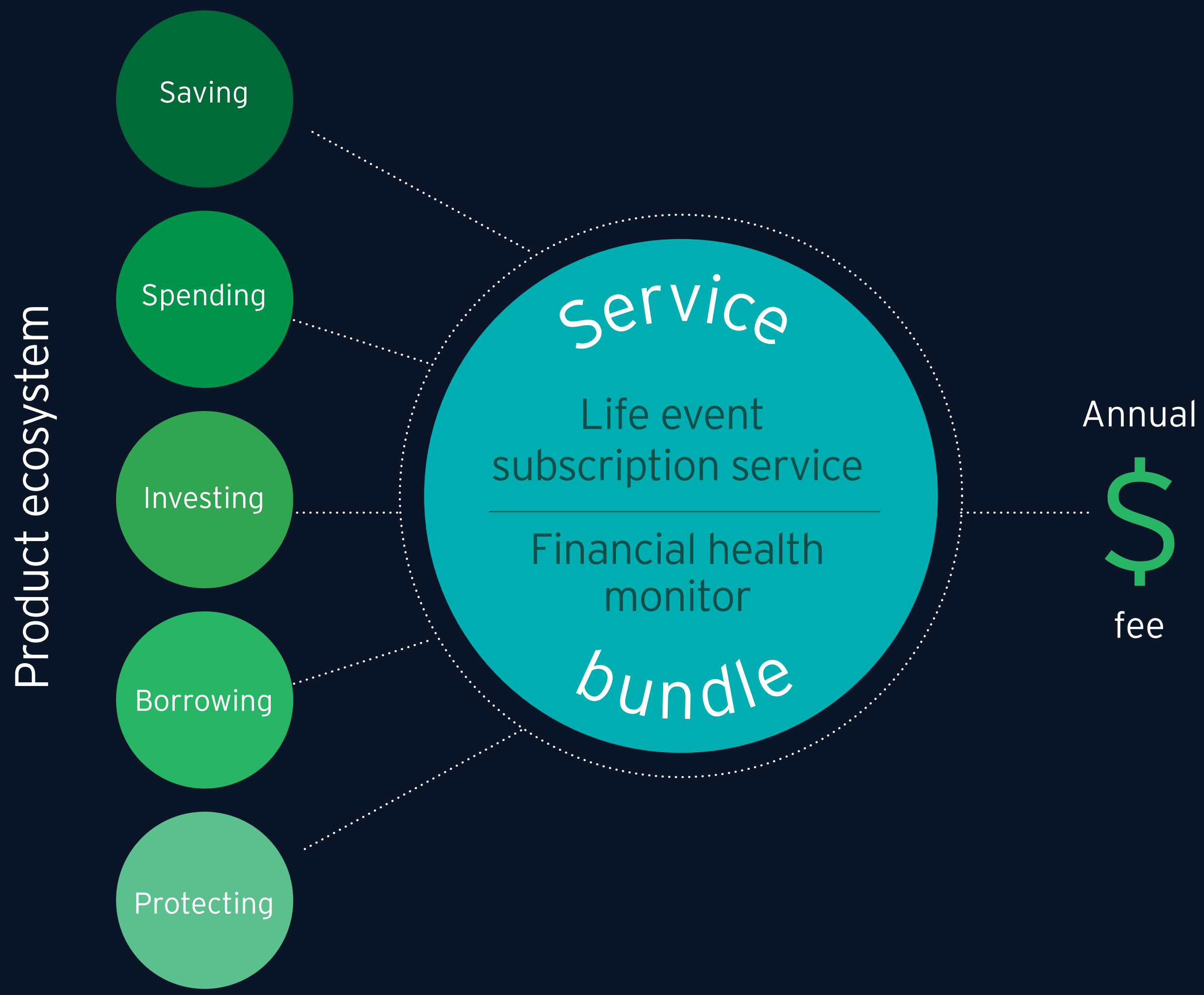


Extending life event offerings to subscription-based models will appeal to consumers

We extended the context for the respondents by describing an offering that could be paid for through a subscription pricing model. The model would involve an annual fee and include a bundle of products and services associated with specific life events, as well as a financial health monitor. As part of the subscription, consumers would be provided with pre-curated access and potential concierge services related to other professional services (e.g., accountants, attorneys, event planners) and nonfinancial needs (e.g., home improvement specialists, furniture stores, nursing facilities, day cares). All bundles would be based on the context of specific life events and consumer interest in associated services.

Services and subscriptions

In a mobile, pay-as-you-go economy, consumers no longer shop for or own assets. So why can't financial services be delivered as subscriptions?



We asked respondents to rate their interest in subscription-based services and pricing models offered by their financial services provider (*see Figures 17 and 18*).

- Across wealth tiers, the interest levels are balanced but tempered. However, since financial services subscriptions are not yet an everyday reality or possibility, we view "somewhat interested" as a clear sign that consumers want to learn and understand more. Our data shows that the inertia level to move consumers into subscription-based models is low; thus, we believe switching behavior can be incented effectively.
- The 25-34 (52%) and 35-49 (51%) age groups expressed the highest interest in subscription models, followed closely by the 18-24 age group (44%). The appeal of subscriptions is more age-based than wealth-based.
- Several life events prompt high interest in subscription-based models (as measured by the combination of extremely/very/somewhat interested responses): getting married (96%), having a child (90%), starting a first job (83%) and preparing to send a child to college (76%) were the top events to prompt interest.
- Looking at only extremely/very interested ratings, starting a first job (64%), getting married (56%) and having a child (54%) are the life events that generate the most interest.

Figure 17

Interest in subscription-based life event bundles — by wealth and age segment

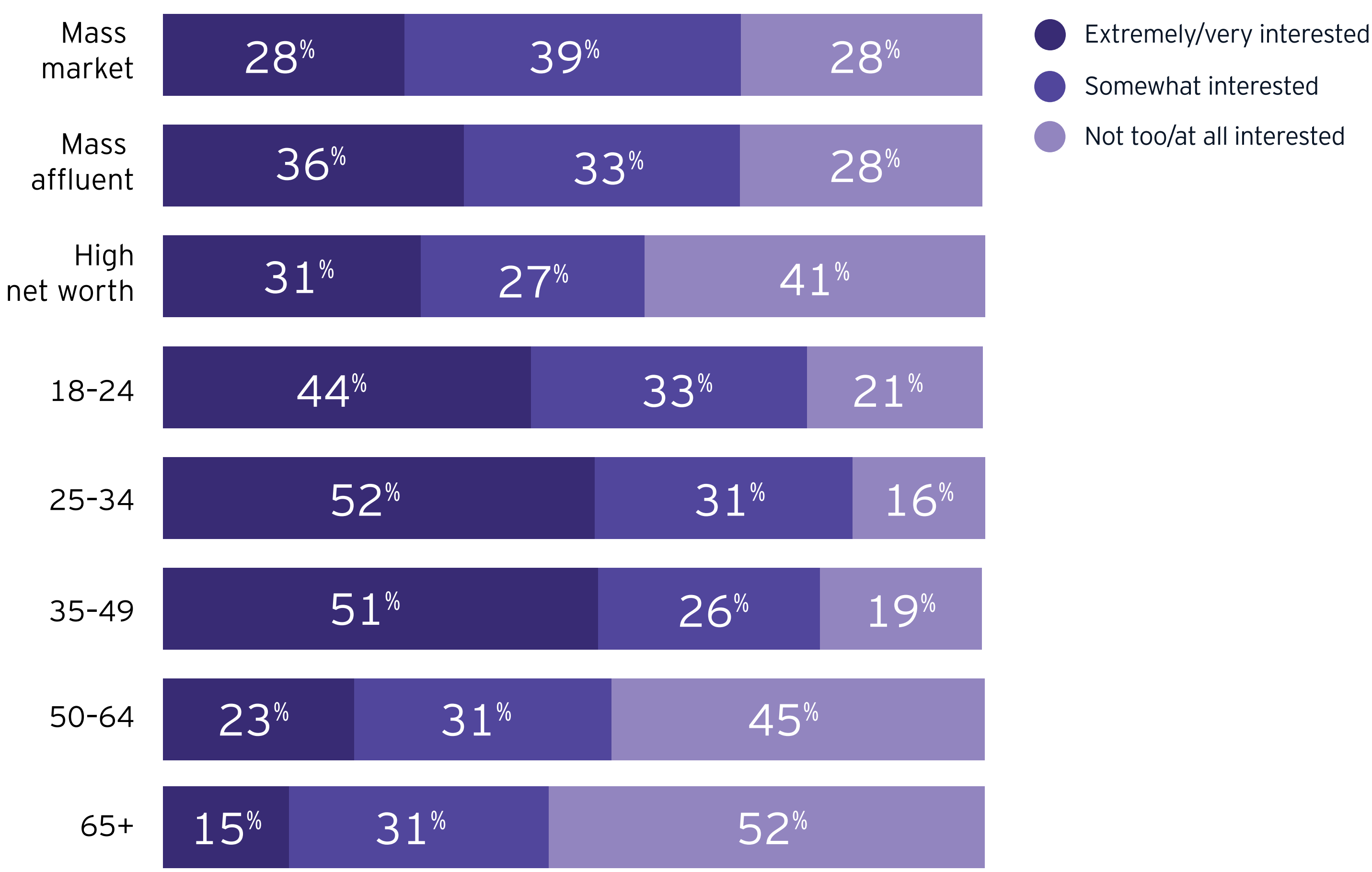
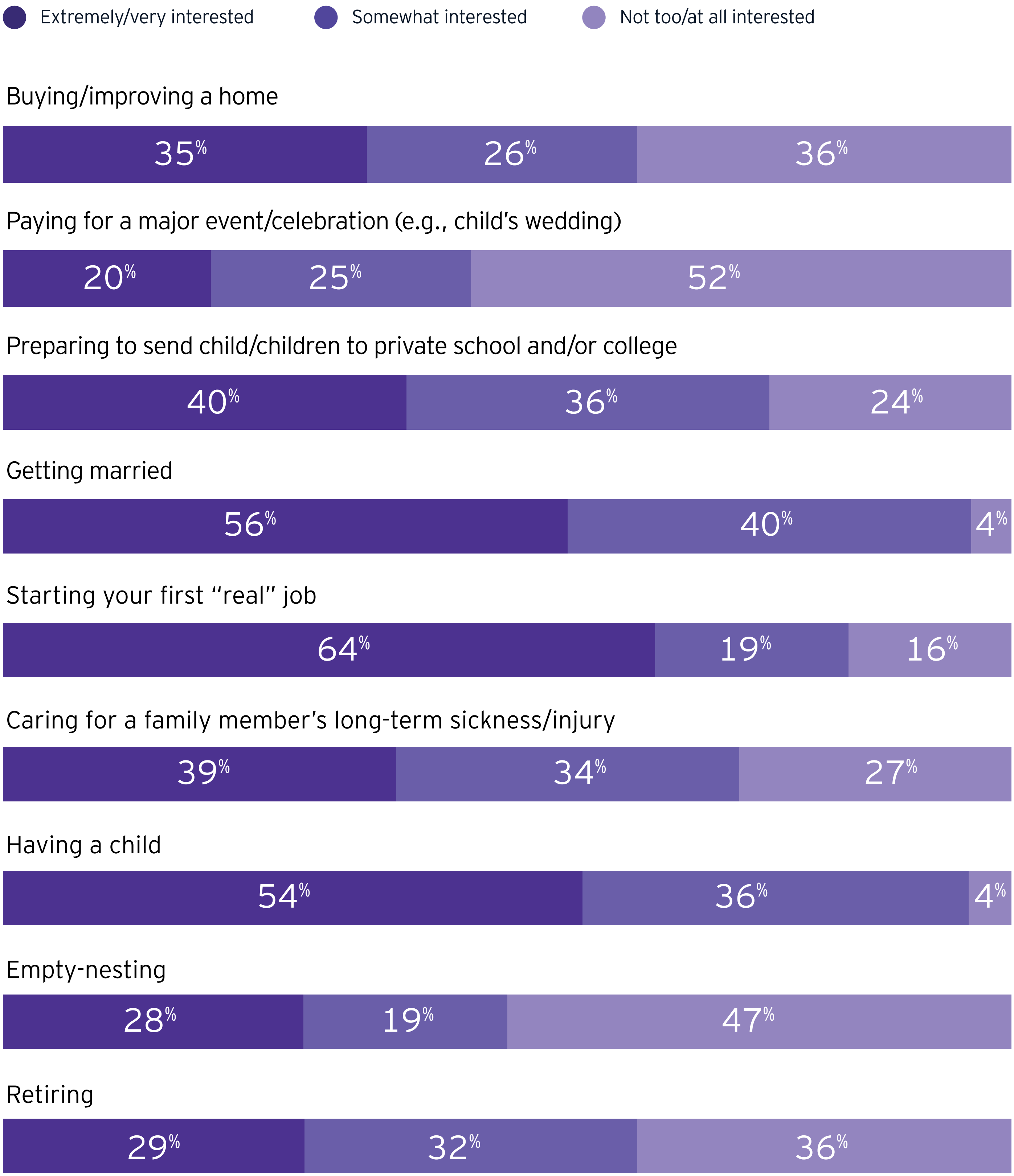


Figure 18

Interest in subscription-based life event bundles — by life event



Subscriptions will create value for consumers and institutions

We ran several simulations comparing consumer interest in subscription offerings from financial institutions and those from technology platform providers. As with the previous simulations, we assumed a base case aligned to each sector's primary products. Custom life event bundles, while possible, were not practical for the purpose of generating universal insight for this paper. We added personalization, subscription-based pricing (as opposed to a stand-alone product pricing), financial health features and a 5% price increase to the model (to simulate the price effect of the subscription fee) (*see Figure 19*).

- Subscriptions will increase consumer demand on average by 5%, even with a fee. Consumers appear willing to pay for the increased value associated with subscription offerings.
- Global/national banks can further deepen relationships with the 35–49 segment (+11.1%), while local/regional banks can do the same with the 18–24 segment (+11.5%).
- High-net-worth consumers will value subscription-based models from their wealth manager (+8.2%), allowing such firms to deepen share of wallet with existing customers (including the 65+ segment, whose share of preference increases by 7.6%).
- In the financial health simulation, wealth firms saw higher share of preference deltas with non-customers than with existing customers, indicating the opportunity for an upside of effective customer acquisition strategies. With subscriptions, the opposite is true. Share of preference deltas are higher with existing customers, indicating that subscriptions will help deepen existing relationships, in addition to serving as a customer acquisition strategy.
- Insurers can use subscriptions as a customer acquisition strategy, but would need to enhance the subscription value proposition for existing customers (through product mix, price and other value features).

Figure 19

Share of preference increase by offering a subscription-based bundle

Global/national bank

	PFSP	All consumers
Mass market	6.3%	6.3%
Mass affluent	7.6%	6.1%
High net worth	7.8%	8.0%
18-34	5.8%	6.0%
35-49	11.1%	8.7%
50-64	6.8%	6.0%
65+	5.2%	7.9%

Regional bank

	PFSP	All consumers
Mass market	8.5%	6.0%
Mass affluent	6.0%	6.1%
High net worth	5.7%	8.2%
18-34	11.5%	6.4%
35-49	4.0%	8.9%
50-64	5.1%	6.1%
65+	5.1%	8.0%

Wealth manager

	PFSP	All consumers
Mass market	1.3%	3.8%
Mass affluent	3.1%	4.0%
High net worth	7.2%	5.0%
18-34	-2.1%	4.0%
35-49	6.9%	5.7%
50-64	5.7%	3.4%
65+	7.6%	5.3%

Life insurer

	PFSP	All consumers
Mass market	2.2%	4.5%
Mass affluent	2.6%	6.0%
High net worth	2.4%	7.0%
18-34	-0.5%	5.1%
35-49	0.9%	7.8%
50-64	4.8%	5.3%
65+	3.4%	7.6%

P&C insurer

	PFSP	All consumers
Mass market	4.1%	4.9%
Mass affluent	5.8%	6.2%
High net worth	7.0%	7.0%
18-34	5.7%	5.7%
35-49	6.2%	8.4%
50-64	3.9%	5.1%
65+	0.0%	7.2%

PFSP: Customers that identified that institution type as their PFSP

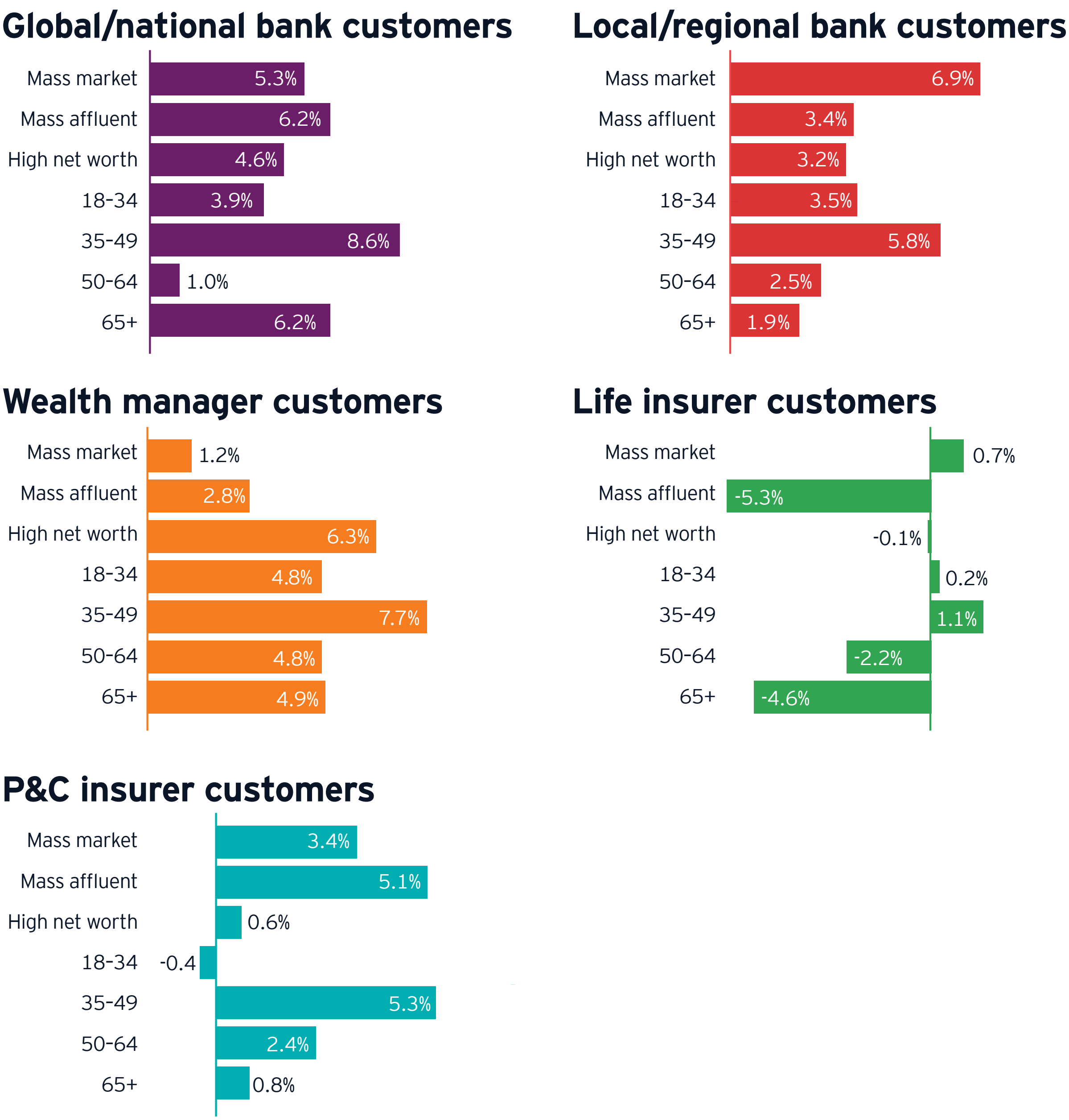
All consumers: All survey respondents

We then wanted to understand the risk of financial institutions maintaining the status quo and not moving into offering subscriptions. We modeled a set of subscription offerings offered by technology platform firms to the core customers of each industry segment. The subscription offer included the same product bundles as each industry base case, personalization and financial health features. But in this scenario, we held price constant (i.e., no 5% increase). We then calculated the share of preference deltas between the tech provider subscription offer vs. the current industry base case (i.e., new entrant vs. current industry status quo) (*see Figure 20*).

- Banks and wealth managers are vulnerable to technology entrants, which show consistently positive share of preference deltas against their financial institution peers. Wealth managers are especially vulnerable in the high-net-worth and 35–49 segments. The 35–49 segment has a consistently higher preference for subscriptions.
- Life insurance core customers do not show interest in technology firms offering insurance-based subscriptions. P&C core customers do show a preference for tech firms offering P&C product subscriptions.

Figure 20

Share of preference increase earned by a technology firm/platform by offering a subscription-based bundle

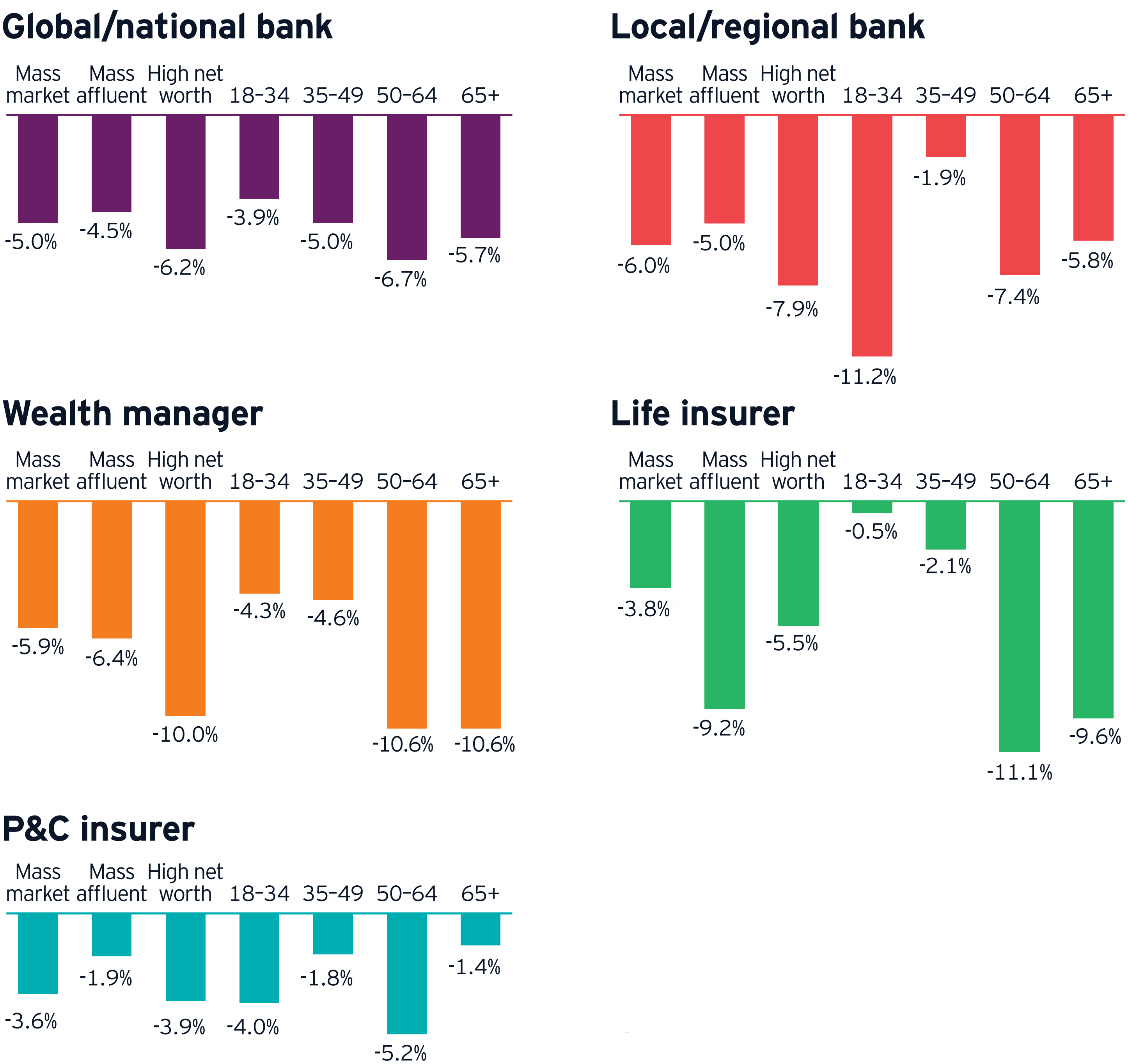


Finally, we wanted to understand the competitive effect of a technology platform firm offering a subscription service at the same time financial providers offered competing subscriptions (*see Figure 21*). Here we calculated the share of preference deltas between the financial services subscription simulation and the technology subscription simulation.

Financial institution customers prefer to get their subscriptions from their financial providers rather than from a technology firm.

Figure 21

Technology firm share of preference relative to financial firm share of preference when offering equivalent subscription bundles



The path forward: the reframing process should begin now

Financial institutions face major choices that will determine how they stay relevant, earn more customer trust and play to win over the next five years. As our research confirms, the future will usher in fundamental changes to the landscape and business models of financial services firms. Incremental approaches to digital transformation, legacy modernization and new product-based offerings will yield only incremental results.

Because large technology firms can enter the competitive landscape and capture material market share, financial institutions must act now with bold purpose and clear focus. Wait-and-see approaches will be riskier in the next five years, as first-movers stand to gain significant advantage. We have laid out an action plan for financial services firms so they can position themselves to win in the next wave. The critical actions are organized across three pillars:

1. **Pressure-test today's thinking:** Strategies need to address the now, the next and the beyond.

2. **Experiment with bold action:** New approaches to trust, wellness and subscription models must be learned and refined by each company over time.

3. **Make the case to address legacy:** Rapid – rather than incremental – modernization is an imperative for future relevance.

1 Pressure-test today's thinking

Many companies have not tested their strategic assumptions about what gives them the right to win or how their revenues and market share will be impacted if other players make bold moves first. Such a pressure test requires not only a rigorous methodology and framework but also access to intelligence and insight that we have built across a multitude of proprietary EY platforms.

Pressure-testing strategies involves a number of key steps.

- **War-game current strategies:** Simple competitive scans and benchmarks often lead companies to double-down on their assumptions. Basic benchmarking typically results in analysis that pushes most firms to the "middle," which limits their usefulness in stress-testing. While they serve a useful purpose in specific contexts, benchmarks are a measurement of what exists today, not an indicator of what is possible tomorrow.

  To more realistically understand threats and opportunities in a dynamic context, companies should war-game their existing strategies. That is, they should lay out the strategic choices they have made around customer segments, product mix, distribution strategies, value propositions, pricing and competitive differentiation and then baseline how the current strategy will perform in the case of various competitive responses. Our simulator platform and other intelligence assets can generate quantified insights highlighting the dynamic landscape and the impacts of actions and reactions. This will allow for a deeper understanding of the threats and opportunities associated with current strategies.

- **Develop your future value propositions:** Most companies have chosen the customer segments they believe they can serve well and monetize successfully. They have access to ample research, know how to craft specific personas, map customer journeys and design value propositions to cater to those specific customer segment needs and preferences. That is the "now."

  Companies need to also understand what's next for their customers and how they are changing. The goal should be to understand how shifting preferences influence consumer demand to identify which new target customers should be served. We help banks, insurers and wealth managers leverage deep data, insight and market intelligence to develop value propositions that drive increased consumer demand at specific customer segment levels. This helps companies to prioritize future investments in capabilities that will drive the most value. We call this the "next and beyond."

- **Find the alpha:** Putting each component together, companies must calculate how their future strategies and value propositions can be met with a variety of strategic responses from within the financial sector and outside. Simply undertaking a strategy because it can succeed does not mean that it will succeed. How competitors respond will influence how successful any company's strategy will be. Using our simulator and intelligence assets, we can help companies identify specific areas where their value propositions will yield higher shares of preference, net of competitive response. These are the opportunities to generate alpha.

2 Experiment with bold action

Many companies have not fundamentally revisited their core business model decisions, nor thought beyond the current state of today's industry structure. When the market is strong, the impetus to such introspection is nonexistent.

In our discussions with management teams, we regularly hear about the reluctance to fundamentally change how the business works. That's mostly due to the innovator's dilemma: how to create new streams of value without disrupting or cannibalizing existing value. Now is the time for thoughtful introspection and bold experimentation. This is ultimately about building core organizational and talent capabilities that will allow companies to compete at scale with tomorrow's business models, not just today's. Companies must test, learn and develop these capabilities thoughtfully, but methodically. We recommend four specific dimensions of introspection and experimentation.

- **Business model:** We have outlined eight core questions that management teams should be considering related to their future businesses. Each question deals with a different aspect of business model choice that, taken together, will form a cohesive thesis for future value creation in an evolving market. We have developed an analytical framework that allows companies to plot these choices and track the implications as they relate to operating model, organization, talent, technology and risk.

- **Trust:** As demonstrated in the NextWave research, trust is about more than security and privacy. Companies should apply "blue-sky" thinking to the trust topic and not be constrained by today's regulatory mandates, legal obligations or punitive incentives. We believe common standards should always be followed. Our research shows quite compellingly a blue-sky approach that considers what sits within and behind each interaction and experience that can impact trust will yield significant value both for consumers and for institutions.

  Bold action is likely to be rewarded, but finding the right balance requires deeper and more strategic analysis by individual companies. Our Trust by Design framework was built to help companies through the process of reimagining trust.

- **Financial wellness:** Our research highlights the value of platform-based ecosystems that become consumers' personal financial operating systems. It also shows that such an ecosystem would serve to engage consumers in ways that can ultimately change behavior.

  Beyond the positive economic impact, such a capability would also add significant value to financial institutions. Companies must push beyond today's wellness platforms — which are largely built on aggregation, integration of budgeting with planning and supplemental content. To date, these platforms have served mainly to promote "stickiness." In the future, they should focus on well-being and behavioral change. We have developed a detailed platform vision with tangible use cases to help companies accelerate strategy and design processes, because we strongly believe that achieving financial well-being is a win-win outcome for industry and society.

- **Subscriptions and new commercial models:** Subscriptions pose both an opportunity for financial institutions and a threat if they do not move proactively. The opportunity is clear: consumers will value subscription-based services and would be willing to pay if offered the right value bundle. The shift toward monetizing users and experiences vs. monetizing products and transactions represents an evolution for the commercial models of most institutions.

  But the threat and call to action is more pressing. Subscriptions represent the potential for services to disintermediate products. As consumers pay fees to interact with a service experience, they pay less attention to products. Companies should be developing subscription-model strategies that allow them to experiment with new value bundles, commercial models and pricing approaches. Our simulation platform and market intelligence assets allow for the custom configuration of subscription bundles, estimation of consumer demand and projection of revenue pools that allow clients to accelerate strategy and design, and to experiment more quickly and boldly.

Eight essential decisions for business model strategy

1 Defend vs. disrupt

- Defend if already a dominant player in the market
- Disrupt if trying to capture and/or exploit an underserved market need quickly

2 Transform vs. innovate

- Transform if focus is enhancing existing value proposition within current business model
- Innovate if experimenting with new business model and/or value proposition

3 Separate vs. integrate

- Separate if attempting to create distinction with a specific market segment or sub-brand
- Integrate if attempting to create synergy through a bundled and seamless value proposition across market/product silos

4 Business vs. ops/IT-led

- Business leads when primary focus is on growth and expansion
- Ops/IT leads when primary focus is on efficiency, productivity and resiliency

5 Diversify vs. focus

- Diversify to capture more of the value for a specific client proposition or life event
- Focus to win and solidify distinction and competitive advantage in a unique asset or capability

6 Build, buy or partner

- Build when capabilities are truly proprietary and provide strategic advantage
- Buy when trying to enter into a new market or segment quickly
- Partner/rent when efficiency, scale and proven capability are most important

7 Client vs. product focus

- Client focus when owning the entire client experience end to end
- Product focus when there is distinct advantage in product superiority vs. client experience

8 Role in the ecosystem

- Own the client
- Own the experience
- Own the ecosystem
- Own the value chain
- Own the product
- Be the utility

3 Make the case to address legacy

Among the many constraints institutions face, legacy tops the list at most companies. This is because investments in legacy are not often tied to value creation, but usually bucketed in stand-alone initiatives where benefits are unclear and measured in longer-term horizons. Simply put, firms cannot sustain momentum in legacy modernization and therefore opt for incremental approaches.

The pace of technology acceleration is exacerbating this issue for most firms; technology now doubles in maturity and efficiency every two years, meaning virtually every technology is legacy from the moment of implementation. Companies need a new playbook for legacy modernization — one that combines aggressive modernization with a new framework for value creation. Modernization is an imperative for future relevance.

Holistic approach to digital enterprise transformation: The word digital has become so ubiquitous, companies use it to make the case for virtually all discretionary investments. In a way, the word digital has lost its distinct meaning, because it has significance in virtually every context of the way businesses work. We believe that companies need a more holistic approach, which we call digital enterprise transformation. This is an approach that allows companies to plot and drive strategic transformation across multiple imperatives in parallel, while balancing the need for investments to produce tangible value:

- **Experience thinking:** Providing the blueprint for experience strategy that enables market growth and differentiation
- **Platform thinking:** Building an extensible and scalable business capability platform that reduces the cost to serve, supports evolving sophistication within technology environments and enhances customer service
- **Digitizing legacy:** Embracing the technology of today and tomorrow to responsibly and iteratively drive operational process change across end-to-end customer experiences
- **Digitizing risk:** Creating a secure, compliant and protected environment to serve customers, employees, partners and stakeholders across both physical and digital channels
- **Being digital:** Transforming business at its core — people, culture and operations

A new framework for value creation: The implied context of value creation for the industry has always been about impact to shareholder returns. In the sense of bottom-line results, this is still important and continues to guide and govern the way companies make capital allocation decisions.

However, in the context of digital enterprise transformation, and the necessary evolution of business models to compete and win in the future, it's necessary to find new frameworks for value creation. The EY vision for such a framework balances both quantitative and qualitative factors in driving long-term value creation. It is inspired by global EY leadership on the Embankment Project for Inclusive Capitalism. The Embankment board consists of CEOs of many of the largest global enterprises, including the largest financial institutions. A key outcome of the project was the creation of a long-term value framework, which provides "principles, guidance and tools for companies to better articulate their long-term performance."

Our framework applies similar principles in the context of digital enterprise transformation — a framework organized around key pillars: people and purpose, agile value chain and platform. We have developed a tool and platform that enables companies to baseline current programs and capabilities and establish a series of key performance indicators and metrics that help to demonstrate value creation in a long-term context *(see sidebar)*.

Value creation framework

Measurable levers that can be manipulated to sustain innovation at scale and which serve as benchmarks to align to value creation goals and priorities.

Transformative culture

Competing today requires cultures of experimentation and empowered employees with authority to make strategic and operational decisions.

Flexible ecosystem

Open ecosystems and partnerships can improve speed to market through access to wider capabilities, talent pools and cutting-edge technology solutions.

Trust enablement

Transformative organizations recognize that "trust" is the new currency to drive value and brand loyalty with customers.

Data-driven insights

As the data-driven economy continues to mature, the new norm for measuring success is not how well you collect data, but how well you leverage insights from data.

Capital agility

Transformative organizations are often more nimble when it comes to investing in new capabilities and utilizing leveraged assets.

Audience interaction

Transformational organizations have harnessed the power of "attention capital" to keep users engaged. As the cost of sharing information goes to zero, sustaining attention will become a critical organizational measurement.

Immediacy

Customers are looking for brands to deliver dynamic, customized experiences that predict and meet their needs in real time.

Conclusion: winning the future in consumer financial services

So what is most significant about reframing? Reframing will change how value gets created both for firms and for consumers, and how firms compete to deliver that value to consumers.

The companies that win the future of consumer financial services will demonstrate the ability to execute with focus and purpose in instilling consumer trust and helping consumers live financially healthier, more secure and more fulfilling lives. Delivering these new forms of value will necessitate new business models.

There is ample upside opportunity for the firms that can get it right. EY research and intelligence platforms can help firms clarify, quantify and prioritize their strategic opportunities. Fundamentally, we believe (and our research shows) that increased financial well-being (and lower financial anxiety) can benefit financial services companies in the form of higher and more sustainable profits, as well as society as a whole through a healthier economy and reduced strain on public resources.

About EY NextWave Consumer Financial Services research

Our research objective was to measure and understand the financial engagement and switching behavior of financial services consumers with an unprecedented degree of precision and granularity. Specifically, we set out to identify and prioritize the features and attributes of financial services offerings that consumers value and to predict how these needs and preferences will reshape the consumer finance industry during the next five years.

The primary context of our research was on the underlying reasons consumers engage financial firms — that is, the life events and goals that drive financial needs. The research also explored how these drivers influence financial preferences and behaviors.

The survey was designed using a conjoint framework, and the study was anchored in the context of holistic financial value propositions as defined by 74 unique features and 173 different attributes. To increase the precision of estimates, an extended conjoint task was developed to track interaction effects. Using the interaction effects, we were able to measure the effect that specific features and value bundles have on share of preference when evaluated through different consumer segments and financial institution types. This approach allows for estimations of market demand and share of preference by industry and customer segment and revenue and profit pool forecasting for individual firms. Using our proprietary research database and simulator platform, we are able to configure and predict share of preference scores for more than 800 trillion unique value bundles.

The study was conducted with 1,500 US consumers split across wealth, age and other demographic factors using the US population sample from the most recently conducted US Census. Our findings are based on statistically significant data pertaining to US consumers across the high-net-worth, mass-affluent and mass-market wealth tiers, as well as across each of the primary age demographic segments: 18–24, 25–34, 35–49, 50–64, 65+. Responses from other demographics were captured but were not the primary basis to evaluate the statistical robustness of the response set. We are now planning to conduct this research in international markets to expand our insights globally.

EY NextWave Consumer Financial Services research provides predictive insight into consumer preference for:

74

unique features

173

different attributes

26

retail financial products

More than

800 trillion

unique value bundles

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