How small financial institutions can win consumer attention

Building a better working world

Getting started

Six steps that credit unions, regional banks and community banks can take to embrace the digital marketplace infrastructure model.

Rapid digitization has left small financial institutions fighting to stay relevant. With online banking making it easier than ever for customers to shop around, comparing products and prices, banks are in a fierce competition for deposits. At the same time, small banks are facing pressures to innovate against FinTechs that are bringing new capabilities to the market with fewer regulatory constraints as well as national banks with the financial resources to fund technological transformations at scale. The future might sound bleak for credit unions, regional banks and community banks. However, an EY survey of more than 2,000 American consumers shows a path forward for small financial institutions that could more than double market share, from 37% to 75%.

Roadmap to doubling market share

2x

By leveraging technology and data to offer curated and personalized solutions with the digital marketplace infrastructure model, small financial institutions could double their market share.

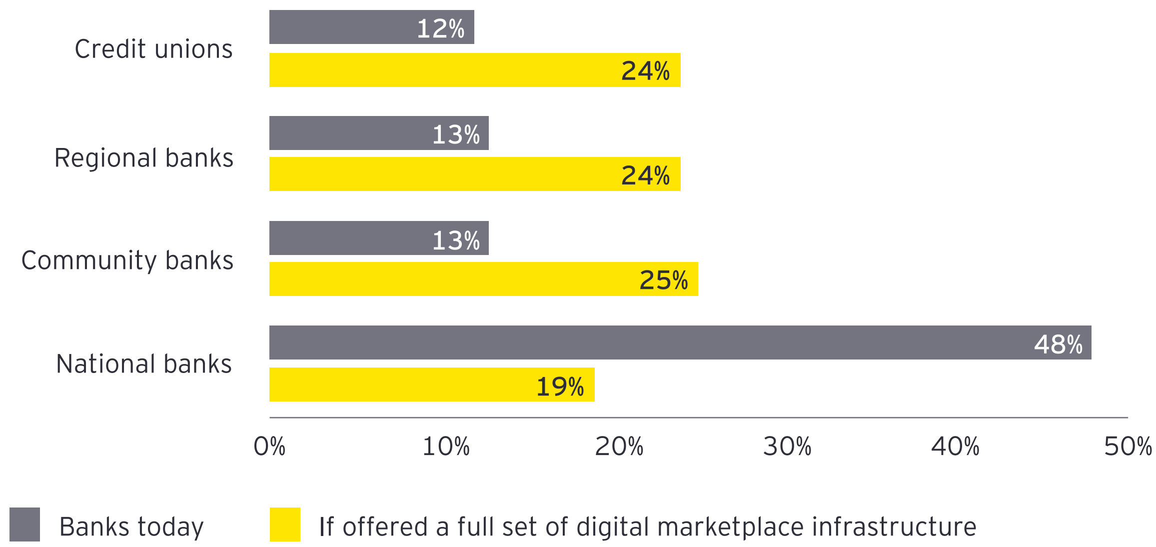
Source: 2024 EY NextWave Consumer Finance Research.

Credit unions, regional banks and community banks have one critical advantage over FinTechs and national banks: because of their deep, long-standing relationships and clear understanding of their customers, they are better equipped to provide a more personalized experience. When offered a full set of products through the digital marketplace infrastructure model, the EY survey found that 75% of consumers preferred small financial institutions over national banks. If customers are provided with two-sided marketplace offers and one-stop shop customer support that leverages technology and data analytics to offer curated, personalized financial solutions, small banks can build on their trusted relationships to set up efficient acquisition funnels and fuel growth.

The trust advantage

75% of consumers preferred credit unions, regional banks and community banks over national banks when offered a full set of products in the digital marketplace.

Source: 2024 EY NextWave Consumer Finance Research.



Fueled by the emergence of new technologies and online services, consumer shopping behaviors are evolving swiftly. In the EY survey, respondents expressed that they are looking for dynamic solutions anchored by life goals and financial health priorities. The most successful financial services institutions will be those that are able to connect these needs-based ecosystems to enable different points of value across the customer journey. Based on an analysis of the EY survey findings, we came up with six key steps that would allow credit unions, regional banks and community banks to modernize, innovate and thrive as they transition to the digital realm.

CHAPTER 1

Use data safely

Banks that handle data responsibly will gain customer trust.

Banks need to evolve to meet consumer expectations in the digital age. That means building trust with consumers by giving them choice and control over their data. In the survey, 74% of respondents considered it very important to control how their data is used. Respondents further identified two core requirements:

- If the provider will keep their information secure, 57% will give consent to use their data.
- If the data is used to enhance their experience, 56% will allow the provider to track their location and use cookies.

By demonstrating that they can be responsible stewards of consumer data, credit unions, regional banks and community banks can gain the opportunity to offer customized products and services. If those data conditions are met, 52% of respondents would be interested in receiving personalized, curated recommendations.

Data safety

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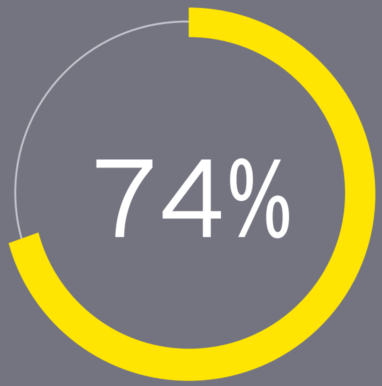


Source: 2024 EY NextWave Consumer Finance Research.

CHAPTER 2

Two-sided marketplace

Banks can attract new consumers by adapting to their new shopping habits.

Few American consumers conduct all their business with one bank. Most Americans have an average of four to five financial relationships, depositing their money, taking out a car loan and paying their mortgage at different institutions. For banks, this leads to challenges with retention and the ability to reengage customers.

- Search is trending toward content as 62% reported that online research plays a major role in selecting their next product, twice more than seeking advice from a financial professional.
- With digital channels making it easy to switch banks, 64% of consumers reported that they would be willing to move their deposit accounts.
- Of consumers surveyed, 37% would be significantly likely to consider a small financial institution for their next product.

The most effective way to draw consumers is to be present in the digital marketplace. Today's customers want to choose when and how they shop. They want products or services that are better suited to their financial goals and life events, whether those products or services come from their primary financial relationship or a third party. As customers become increasingly accustomed to shopping online, a two-sided marketplace enables banks to offer their existing products on new digital channels where customers compare products and prices. It also provides customers access to a much wider range of offerings from third parties that banks can white label, including personal loans, credit agencies and financial wellness. By using the right platform, small banks can curate the digital marketplace offerings to complement their products.

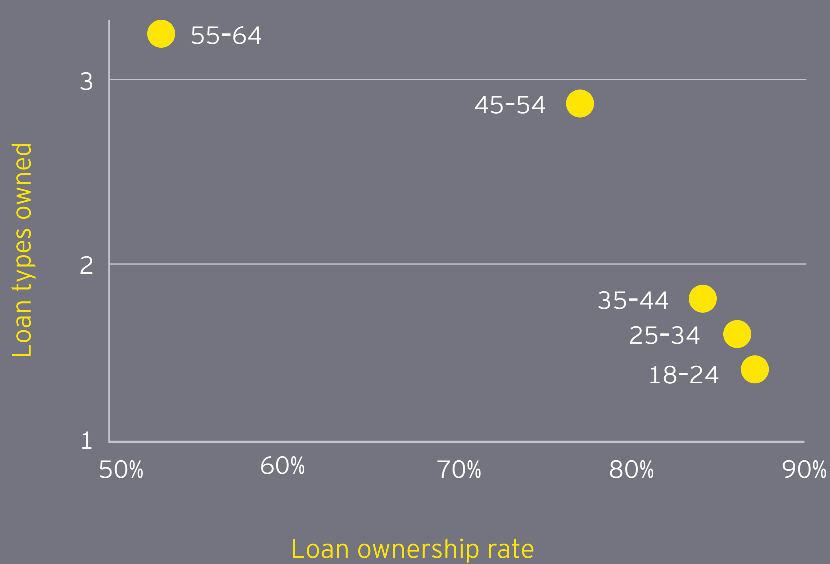
CHAPTER 3

Leverage data

Enhance the customer experience through actionable insights.

Demographic financial disparity

Younger audiences have on average more debt, but older consumers own on average double the amount of loans compared with younger generations.



Source: 2024 EY NextWave Consumer Finance Research.

Banks that provide the right customer with the right product at the right time will enjoy a competitive edge in the marketplace. To pinpoint who, what and when requires data. According to the EY survey, the average consumer is preparing to make purchases for 2.8 major life events, such as a car loan, saving for a child's college education or a mortgage. However, a mass targeting marketing strategy would miss 61% of consumers' major life events purchases because every generation has specific needs and financing abilities. Effective marketing tactics must be tailored to specific demographics and products.

- Among consumers between the ages of 18 and 24, 51% are interested in buying a car, compared with only 27% of 55- to 64-year-olds.
- Among consumers saving money for a child to go to college, 77% bought a deposit product and 41% bought an investment or a wealth product.

CHAPTER 4

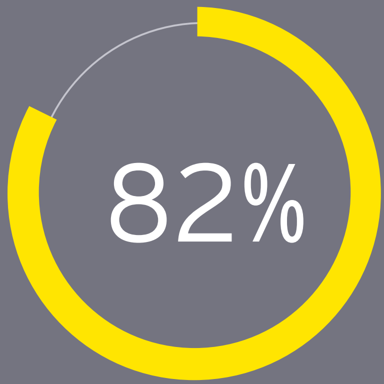
Provide cross-brand offers

Offering products outside the financial services ecosystem can create repeat customers.

Having cross-brand opportunities in the digital marketplace can help improve client retention and reengage existing customers. Because of the deeper level of trust that credit unions, regional banks and community banks have, they are well positioned to capture consumer attention with offers outside of the traditional financial services ecosystem, including automotive, health care, hospitality, commerce and gaming. Among survey respondents, 82% expressed interest in receiving cross-brand offers. The average consumer was interested in 2.5 of the unique industries tested, reaffirming the greater need to support customers through their journeys across different need-based ecosystems.

Cross-brand opportunities

82% would be receptive to product offers outside of the traditional financial services ecosystem.



Source: 2024 EY NextWave Consumer Finance Research.

CHAPTER 5

Create a sticky experience

Better user experience improves retention rate.

Offering an enhanced and personalized dashboard with connected widgets can improve the customer experience and create a sticky experience. In the EY survey, 55% of consumers reported using a dashboard to manage their finances. On average, those respondents accessed 4.9 different types of dashboards to manage deposit accounts, credit cards, investments, insurance and loans. However, they also reported that dashboards often lack key functionalities, including portfolio optimization, spending trackers and life event financial information.

One-third would also welcome news and financial information content, including daily financial coaching or advice from a trusted financial influencer. Customers also expressed the preference for a one-stop shop that provides a single point of contact for first- and third-party products bought through the primary financial institution should they need any support. Small financial institutions could also take a page from the online retail playbook, recommending "you might also like" products based on the customer profile.

Enhanced personalized dashboards

40%

of surveyed consumers expressed interest in better financial wellness tools that would allow for credit monitoring, budget planning and simulators.

Source: 2024 EY NextWave Consumer Finance Research.

CHAPTER 6

Form a strategic partnership

Credit unions, regional banks and community banks can overcome economic, operational and technological constraints.

Strategic partnerships provide access to innovative technology and industry expertise that credit unions, regional banks and community banks can leverage to modernize their banking practice and improve their go-to-market velocity with trusted, cost-effective, turnkey solutions. The cost associated with forming alliances is offset by the value they create, especially when the partnership is able to provide access to expertise not held in house, such as risk frameworks (privacy, financial crime, third-party risk, etc.). It is a necessary investment to remain competitive and set up a digital acquisition funnel. This move aligns with the current market trend of providing end-to-end solutions rather than isolated services. By advancing their digital capabilities through strategic partnerships, small financial institutions can level the playing field with the FinTechs and the national banks.

Conclusion

Credit unions, regional banks and community banks are uniquely suited to win the market, with the EY survey results showing they already have the most valuable commodity of all – the trust of their customers. By capitalizing on that trust and offering personalized solutions tailored to a customer's specific needs, along with a wider range of financial services through a two-sided marketplace, small banks can overcome the challenges they face in the market, capture consumer attention and dominate the digital ecosystem.

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About this survey

- Research was conducted from January 25 to February 2, 2024, among 2,025 general market consumers between the ages of 18 and 64.
- Respondents had one or more financial product and were part of the mass market or mass affluent wealth tier (97% of the US population).
- Those completing the survey screener were representative of the US census regarding their gender, age distribution, region and income.
- Within the survey, respondents participated in a custom conjoint task utilizing an orthogonal design to ensure independent estimates. The conjoint task had 62 options allocated across 28 features. The accompanying simulator was able to estimate 2,415,919,104 unique combinations.

Clarke and Blum Market Research, a longtime EY research collaborator, oversaw the conjoint design and survey execution.

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ED None.