Achieving Primary Financial Institution Status with Baby Boomers

HARLAND CLARKE®

How to Build Engagement and Loyalty With the Most Affluent Generation in History[1]

Financial institutions face fierce competition for market share. And that competition will likely intensify as disruptive forces, such as digital technology, continue to change the landscape of the banking industry. As much as 30 percent of banking revenues are at risk by 2020 because of new trends and new competitors.[2] Financial institutions that want to increase profitability and improve retention must remain top of mind and become an invaluable daily resource if they want to become the primary financial institution (PFI) for their account holders.

Rather than view disruptive forces as a hindrance, financial institutions should embrace the changing landscape as an opportunity to increase services and value to customers, taking advantage of innovative technology, mobility, social networks, and more, to offer a complete and personalized customer solution. This will increase customer acquisition and retention, and will help build deeper customer relationships. Financial institutions that are willing to do this can increase their operating income as much as 30 percent, their customer base up to 10 percent, and their customer interactions as much as 250 percent.[3]

According to Moorad Choudhry, author of *The Principles of Banking*, the biggest challenge facing financial institutions is to stay engaged with the account holder.[4] Those that do it well will surely gain market share over the next five years. But research indicates that these efforts are falling short.[5] As the financial industry focuses on the ever-growing millennial generation, it risks ignoring the customer group that is the foundation of bank and credit union growth — baby boomers.

This paper will explore challenges and opportunities related to achieving PFI status with the baby boomer generation. It will provide insight and strategies, based on generational attitudes and behaviors, to help financial institutions increase baby boomer engagement and loyalty, maximize wallet share, and build long-term customer relationships.

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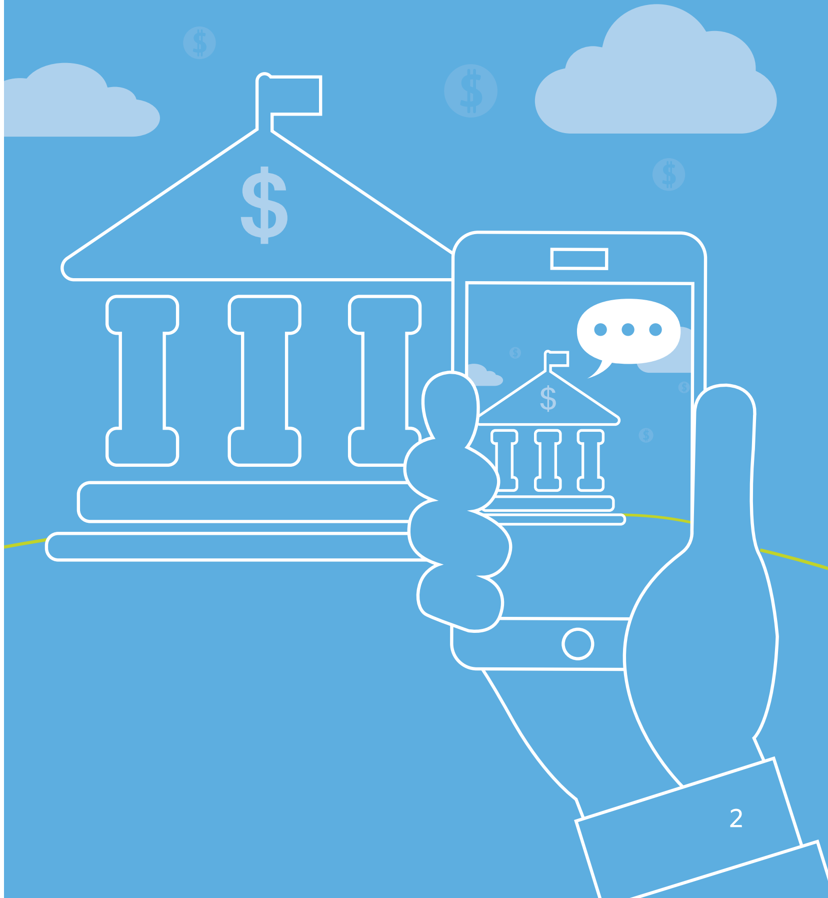
1 Steverman, Ben, "The Richest Generation in U.S. History Just Keeps Getting Richer," Bloomberg.com, July 12, 2016
2 *"Everyday Bank: The Digital Revolution,"* Accenture Consulting, 2017
3 Ibid.
4 Choudhry, Moorad, The Principles of Banking, Wiley, 2012
5 Williams, Sean, *"For Banks, Baby Boomers Mean Lucrative Business,"* Gallup.com, February 2, 2015

Rather than view disruptive forces as a hindrance, financial institutions should ***EMBRACE*** the changing landscape as an opportunity to increase ***SERVICES*** and ***VALUE*** to customers.



As the financial industry focuses on the ever-growing millennial generation, it risks ignoring the customer group that is the foundation of bank and credit union growth —

BABY BOOMERS.

Who Are The Baby Boomers?

Baby boomers, born between 1946 and 1964, are the most financially stable and enduring generation of consumers. At 74.9 million members, equaling 26 percent of the total U.S. population, baby boomers are second in size only to the millennials.[6] They are the wealthiest generation in history, holding approximately 70 percent of the wealth in the U.S.[7] And they will continue to be the wealthiest generation until at least 2030, when they are expected to have more than $53 trillion in financial assets.[8]

According to Gallup, baby boomers are the most profitable generation for financial institutions, driving the greatest amount of banking and credit union revenues of any generation in history.[9] Half report more than $100,000 in investable personal assets, compared to 37 percent of members of Generation X and only 14 percent of millennials.[10] And while the oldest baby boomers have entered retirement, the youngest members of this generation are at the peak of their careers, and are actively spending, borrowing and investing their money.

Why Target The Baby Boomer Generation?

The financial numbers alone make this generation an attractive target for banks and credit unions. Beyond their wealth, however, baby boomers make up the largest share of banking customers in the U.S. They are the foundation of financial institution growth, with 89 percent reporting at least one checking, savings or money market account at a bank or financial institution.[11]

Baby boomers have high expectations of their financial institutions, but they are typically more loyal to their bank or credit union than other generations. Millennials, for example, are three times more likely to open an account with a competitor than baby boomers, and five times more likely to close all of their accounts with their primary financial institution.[12]

The Challenge

When it comes to investing their wealth, however, baby boomer loyalty doesn't extend far beyond checking, savings and money market accounts.

[6] Fry, Richard, *"Millennials Overtake Baby Boomers as America's Largest Generation,"* Pew Research Center Fact Tank, April 25, 2016
[7] Srinias, Val and Goradia, Urval, *"The future of wealth in the United States,"* Deloitte University Press, November 9, 2015
[8] *"The Longevity Economy,"* AARP, September 2016
[9] Marous, Jim, *"Banking's Forgotten Generation,"* The Financial Brand, September 14, 2016
[10] Ibid.
[11] Yu, Daneila, and Ray, Julie, *"Baby Boomers Put More Money Than Trust in Banks,"* Gallup.com, January 21, 2014
[12] Tynan, Kevin, *"Marketing Banking Services to Millennials is Like Musical Chairs,"* The Financial Brand, October 14, 2016

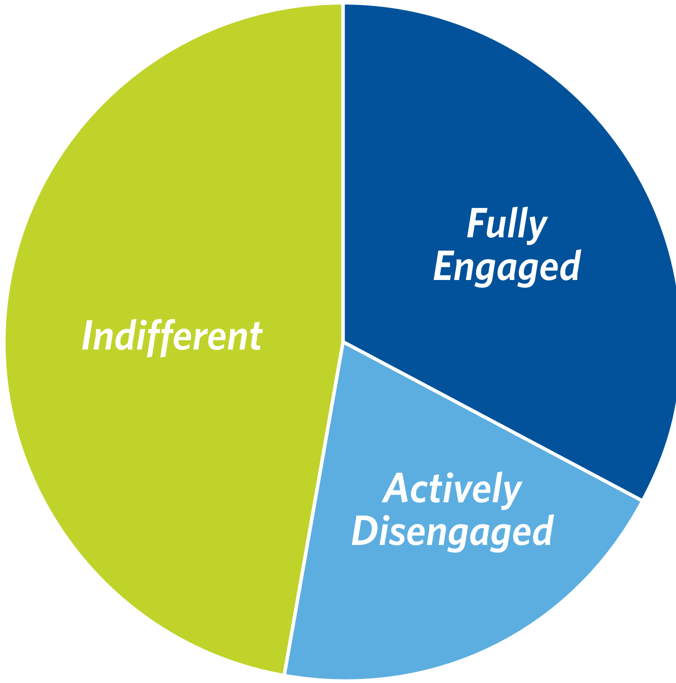
Only 40 percent have their mortgage loans at the same institution as their primary banking accounts, and only 21 percent say they use their primary bank for investment services.[13]

The problem lies in engagement, or lack thereof. Baby boomers feel considerable indifference toward financial institutions, and younger baby boomers (those who are 58 to 68 years old) consistently rank financial services brands lower than other generations. Only one in three baby boomers are fully engaged with their primary banking provider, while two in ten are actively disengaged, and nearly half (46 percent) are indifferent.[14]

But the picture isn't as bleak as it seems. A full 70 percent of U.S. consumers would like to have all of their accounts at one financial institution, and this includes baby boomers.[15] Financial institutions that are willing to invest efforts toward reengaging with baby boomer customers can see substantial benefits. Fully engaged baby boomers tend to do more business with their PFI.

They are 50 percent more likely to have their mortgage and twice as likely to have an investment account with their PFI. They also have a higher percentage of deposits and almost twice the share of investable assets with their PFI compared to actively disengaged baby boomers.[16]

Clearly, baby boomers are a key customer segment that financial institutions can't afford to overlook. This is especially true given that nearly half of financial institutions (49 percent) say their top priority through 2017 is to cross-sell, deepen relationships, improve wallet share, and increase products per household.[17] If financial institutions can convert their disengaged baby boomer customers to fully engaged, Gallup research indicates the effort could yield industry-wide growth of nearly $82 billion in deposits and $443 billion in investable assets.[18]



Baby Boomers' Engagement with Their Primary Banking Provider

[13] Williams, Sean, *"For Banks, Baby Boomers Mean Lucrative Business,"* Gallup Business Journal, February 2, 2015
[14] *"Battle for the Ages in Financial Services,"* The Financial Brand, October 28, 2016
[15] Arnold, Mark, *"Beyond a Savings Account: Becoming Your Members PFI,"* Markarnold.com, May 17, 2012
[16] Ibid.
[17] Marous, Jim, *"10 Marketing Trends the Banking Industry Can't Ignore,"* The Financial Brand, February 29, 2016
[18] Ibid.

Generational Marketing: A Strategy To Increase PFI Status

Perhaps one of the reasons baby boomer customers are disengaged and dissatisfied is because they are largely ignored by marketers, leading them to feel that brands and organizations don't understand them or don't value them as customers. AARP estimates that only five to 10 percent of marketing targets the baby boomer generation.[19] Marketers who do target baby boomers often use clichés and ageist stereotypes, portraying baby boomers as elderly, confused, technologically challenged, and no longer relevant. These marketers risk insulting their baby boomer targets, or worse, turning them off completely.

The struggle to be the primary financial institution for account holders and remain top of mind is possibly one of the biggest challenges financial institutions face.[20] Those that want to get the biggest return on their marketing investment (ROMI) are shifting their focus to generational marketing. This strategy recognizes that each generation has meaningful and unique preferences, attitudes, perceptions and beliefs, driven by cultural and historical influences such as 9/11, the Great Recession and the technology boom. Factoring in the specific characteristics and behaviors of a target generation makes it easier to customize marketing messages and build relationships that can drive growth, loyalty and profitability.

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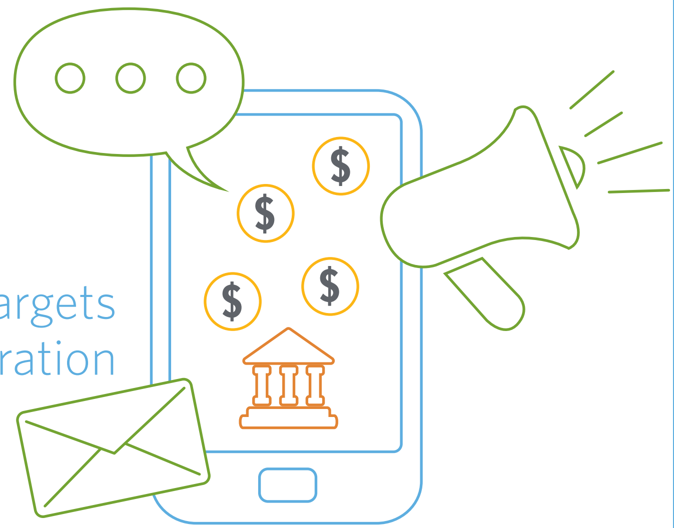

Factoring in the specific ***CHARACTERISTICS*** and ***BEHAVIORS*** of a target generation makes it easier to ***CUSTOMIZE*** marketing messages and ***BUILD*** relationships that can drive ***GROWTH, LOYALTY*** and ***PROFITABILITY.***

[19] Holtzman, Jody, *"What's Your 50+ Strategy? A New Investment Theme,"* AARP, September 2013
[20] Hodges, James, *"The Battle To Be Consumers' Primary Financial Institution,"* MX, April 22, 2016

BABY BOOMERS want their primary financial institution to focus on financial control, advice, and retirement planning.

What Do Baby Boomers Want From Their Financial Institutions?

Facing significant challenges with retirement and finances, the biggest stressor for baby boomers is the fear of running out of money during retirement. While most have several sources of retirement income, they lack a true financial plan to help manage and stretch their financial resources through retirement. More than 60 percent of baby boomers plan to work past age 65 or not retire at all, to preserve their income and health benefits.[21] More than half are not confident their assets and income will last through retirement.[22] Thirty-two percent have provided financial support to an aging parent, and 63 percent of those with an adult child have given that child some sort of financial support.[23]

Given these challenges and responsibilities, it's not surprising that baby boomers want their primary financial institution to focus on financial control, advice, and retirement planning.

According to a research study by CUNA Mutual Group, the top five things baby boomers want from their primary financial institution are:

1. Products and services that leave them in control of their financial decisions (71 percent)
2. Someone who focuses on providing them advice rather than on just selling to them (63 percent)
3. A variety of financial products that meet all of their needs (61 percent)
4. Someone who can give them retirement answers in language they understand (56 percent)
5. Income-generating investments they don't have to manage (55 percent)[24]

Baby boomers also put a premium on convenience and on customer service, both in person and online, though they are willing to sacrifice a portion of service and convenience in favor of value-driven products that ensure a healthy financial future.[25] Having an emotional connection with their PFI is also a key measure of satisfaction.[26]

[21] *"Baby Boomers & Retirement Planning,"* Transamerica Center for Retirement Studies, January 2015
[22] Ibid.
[23] *"The Sandwich Generation,"* Pew Research Center, January 2013
[24] Hunt, Jeff and Franchino, Vicky, *"Boomers or Bust: A Generation You Can't Afford to Lose,"* CUNA Mutual Group, 2009
[25] Calonia, Jennifer, *"3 Things Baby Boomers Need Most from Banks,"* U.S. News & World Report, May 22, 2014
[26] *"McKinsey Global Private Banking Survey 2013: Capturing the new generation of clients,"* McKinsey & Company, 2013

Baby Boomers and Technology: Fact vs. Fiction

There's a common misperception that baby boomers aren't comfortable with technology and are resistant to integrating it into their everyday activities. But the facts don't support this belief, especially when it comes to digital banking. Baby boomers are very active online, researching companies and products, engaging in social media, and conducting financial activity. Today, baby boomers are driving even more financial activity. They are driving more revenue for banks and credit unions than any generation in history.

Online banking is preferred by 92 percent of baby boomers,[27] and 71 percent of baby boomers bank online at least once weekly.[28] Eighty-seven percent of baby boomers check their account balances online, and 47 percent prefer digital payment methods whenever possible.[29]

What may be even more surprising is that 93 percent of baby boomers have a smartphone, and more than half (54 percent) say they use or "can't do without" their banking and financial apps.[30] It's time to separate the fact from fiction when it comes to baby boomers, technology and digital banking.

MYTH 1: Baby Boomers are Technologically Challenged.

TRUTH: Baby boomers are the fastest growing segment of technology consumers, spending more money on technology than any other generation.[31]

MYTH 2: Only Generation Y and Generation X Utilize Digital Banking.

TRUTH: Forty-five percent of baby boomers and seniors actively use online or mobile banking, and 71 percent of baby boomers bank online at least once weekly.[32] Once baby boomers use online banking technology, they become avid users of online banking services, including bill payment and personal financial management.[33]

MYTH 3: Baby Boomers are Less Likely to Research Online or Visit a Financial Institution's Mobile Site on a Tablet.

TRUTH: For baby boomers, the internet is the number one source of information, driving both online and offline actions. Many baby boomers prefer tablets to smartphones for online research due to the ease of viewing information on a tablet screen. Having a strong online presence and customer-friendly website is critical for achieving PFI status with baby boomer customers.[34]

ONLINE BANKING

FACT

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[27] Holmquist, Lars, *"Empowering the Adaptable Generation: Banking with Baby Boomers,"* Banking.com, October 6, 2016

[28] *"What Baby Boomer & Millennial Banking Customers Have in Common,"* Customer Service Profiles, July 30, 2015

[29] Ibid.

[30] Ibid.

[31] James, H. E., *"Baby Boomers Gain Freedom Through Technology,"* Tech.co, July 14, 2015

[32] Ibid.

[33] Weinick, Jason, *"Top 5 Digital Banking Myths,"* The Financial Brand, November 19, 2014

[34] *"Generations Study: Millennials and Boomers,"* Radius Global Market Research, 2013

MYTH 4: Financial Institution Customers Prefer Mobile Access Over Laptops and Desktops When Accessing Financial Information.

TRUTH: More than 75 percent of customers who access their financial information use a laptop or desktop computer to log in to their bank or credit union website. And while younger generations are more likely to use smartphones or tablets to access their financial information, baby boomers more commonly use a laptop or desktop.[35]

MYTH 5: Consumers Will Not Frequent Branches Once They Start Using Mobile Remote Deposit Capture.

TRUTH: More than 70 percent of customers visit the branch at least once per month. For baby boomers, who continue to value face-to-face interaction, this number is likely higher.[36] Customers who make deposits remotely using mobile devices are highly engaged with their financial institution, including the branch.

Strategies to Increase Baby Boomer Engagement and Loyalty

For financial institutions to achieve or improve PFI status, they must first address issues of baby boomer engagement and loyalty, with the goal of converting the actively disengaged to fully engaged.

Here are five tips that any financial institution can implement:

1 Build Personal Relationships

Baby boomer customers need a trusted partner and advocate to guide them in managing their finances, especially with the challenges they face approaching retirement. Providing free and highly visible outreach programs and educational content, including blogs, e-books, videos, and interactive tools, can give account holders increased knowledge and lead to improved financial well-being. Financial institutions that can shift from a transactional relationship to a personal relationship can build emotional connections that create long-term customers and members, leading to up-sells and cross-sells.[37]

2 Build Trust

Of all the generations, baby boomers are more likely to describe their financial institution as "trustworthy," at 72 percent, second only to the silent generation (born 1925–1945) at 81 percent.

Surprisingly, however, only 27 percent of baby boomers say their PFI looks out for their financial well-being.

And while an overwhelming 86 percent of all account holders say they trust their financial institution to keep their personal data secure — more than any other industry — 61 percent of baby boomers voice concern that the risk of their financial data being compromised will increase over the next year.

These concerns present financial institutions with a challenge and an opportunity to improve their account holders' sense of trust, whether through educational resources and financial advising, or service offerings such as data protection.

3 Speak Their Language and Eliminate Stereotypes

Be sure marketing language speaks to the baby boomer generation's state of mind, rather than that of their parents. Baby boomers may be getting older, but they aren't old. They are a free-spirited generation, adventurous and lively. Avoid using words like "elderly" and "senior," and use images online and in marketing materials that reflect an active lifestyle, rather than projecting a false stereotype.

[35] *Weinick, Jason, "Top 5 Digital Banking Myths,"* The Financial Brand, November 19, 2014
[36] Ibid.
[37] Plutsky, Gordon, *"To Capture Boomer Wealth, Banks Need To Think Differently,"* MediaPost, November 10, 2015

4 Optimize Digital Banking and Technology

Research indicates that digital banking use by baby boomers will continue to increase. Financial institutions should consider generational marketing strategies with digital assets just as with advertising and other marketing materials.

Online tools such as calculators and retirement planners, as well as website landing pages and information assets, can be customized to communicate with each generation, and can be promoted through email marketing, social media, search engine marketing and customer support emails.

And digital capabilities enable financial institutions to redefine "personal banking" with targeted contextual alerts, personal financial advice and insight, account aggregation and spending categorization, further strengthening personal connections with customers.

5 Use Data for Smarter Marketing

Financial institutions collect large amounts of data in the normal course of business — data that can be used to understand and market to account holders and prospects in entirely new ways.

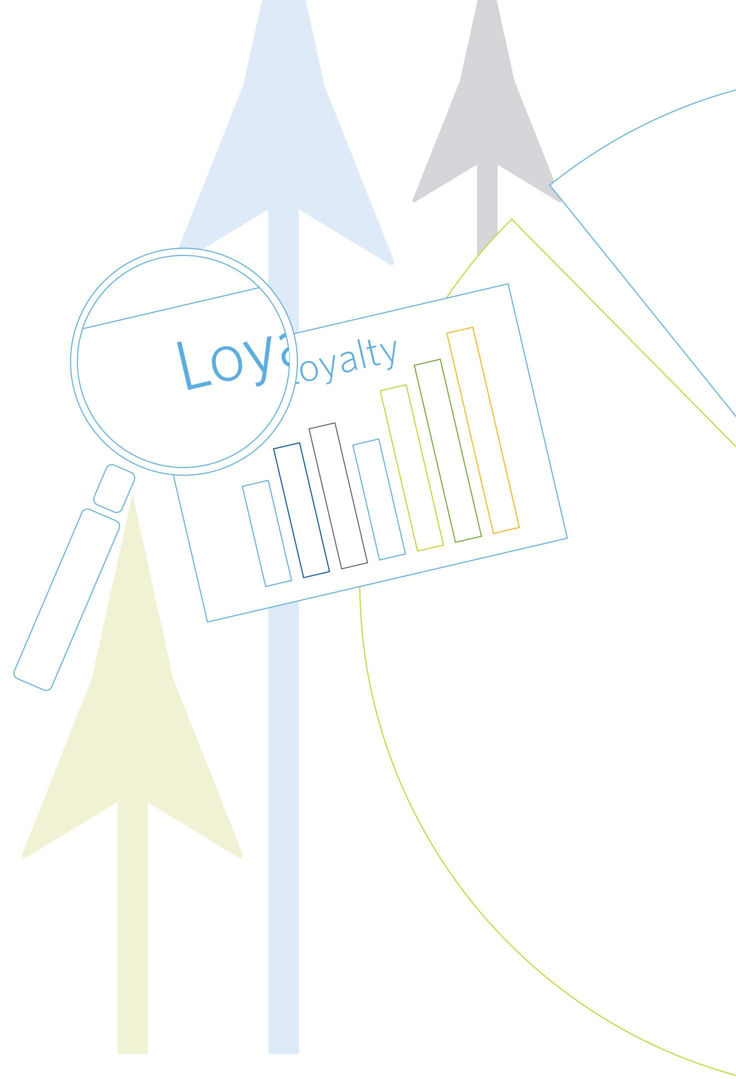
By aggregating and mining this data, and applying powerful analytics, financial institutions can gain insight that allows them to anticipate individual needs and reach out at relevant times with personalized, value-added services. Targeted marketing, based on analytics-driven customer insight, can enhance customer engagement while optimizing time and return on marketing budgets.

6 Offer the Right Products

Baby boomers have high expectations of their financial institutions. An overwhelming 91 percent say it's important that their financial institution understands their needs and provides the right products and services to help them meet their financial goals.[38] To build long-term relationships with baby boomer consumers, financial institutions will have to understand and address needs and opportunities specific to this generation.

Baby boomers are the demographic most likely to buy a new vehicle, for example, making them good targets for auto loans.[39] And while baby boomers may choose to retire in place rather than purchase a new home, a home-equity loan would allow them to make improvements or modifications that address their changing physical needs. As baby boomers edge toward retirement, they will need services beyond loans and deposits, including retirement planning, wealth management, commercial lending, and financial services to cover unexpected healthcare costs.[40]

The baby boomer generation's wealth, financial activity and sheer numbers make it an attractive target for financial institutions. Those that want to achieve or improve PFI status with this valuable customer base must address the issues that have caused these customers to become disengaged. With nearly 70 percent of baby boomers actively disengaged or indifferent, financial institutions have an enormous opportunity.[41] Those that are willing to make the effort can gain loyal, long-term customers while maximizing wallet share and achieving financial and operational goals.



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[38] "CSI Consumer Survey Uncovers Multiple Differences on Banking Preferences Among Millennials, Gen Xers and Baby Boomers," CSI, July 27, 2016

[39] Williams, Sean, "For Banks, Baby Boomers Mean Lucrative Business," Gallup Business Journal, February 2, 2015

[40] Ibid.

[41] "Battle for the Ages in Financial Services," The Financial Brand, October 28, 2016