

A First Data White Paper

The Impact of the Economy on Consumers' Financial Behaviors and Perspectives

By First Data and Market Strategies International

MARKETSTRATEGIES
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Introduction

In recent years, many consumers have suffered financially as a result of the global economic crisis. Workers have lost jobs or had their incomes slashed. Homeowners have seen their home values drop dramatically, leading to a flood of foreclosures and short sales. Many consumers are focused on spending less and spending wisely, especially as prices for many goods and services have escalated.

- How has this environment of monetary belt-tightening affected consumers' financial behaviors and attitudes?
- Do consumers today have different expectations of their banks, credit unions, and other financial institutions?
- How can financial institutions stay competitive in these challenging times, especially with new legislation that makes credit and debit cards less profitable?

To answer these critical industry issues, First Data and Market Strategies International recently partnered to conduct an online survey of 2,000 U.S. consumers. The "New Consumer and Financial Behavior" study assessed consumers' attitudes, behaviors, desires and technology adoption. This research paper is the second in a series of four based on results of the study and focuses on the impact of current economic challenges on consumers.

Topics include:

- Steps consumers are taking to manage their money, and how financial institutions can support them.
- Consumer attitudes about the transparency of communication from financial institutions, especially regarding fees.
- Usage patterns for credit and debit cards in a sluggish economy.
- Tips for financial institutions to remain competitive despite economic challenges.

About the Study

The "New Consumer and Financial Behavior" study was conducted jointly by First Data and Market Strategies International, a market research consultancy. During March 2011, 2,000 banked consumers (who have at least one account at a financial institution) completed an online survey of their attitudes, behaviors and expectations pertaining to their primary financial institution, as well as their adoption of related technology. All respondents were individual or household financial decision-makers recruited from the uSamp opt-in online panel of U.S. adults. For purposes of analysis, respondents were grouped into six consumer segments using sophisticated and robust segmentation approach that combines demographics, attitudes, behaviors and values to create comprehensive, instructive consumer profiles. A full description of the research methodology is included on p. 8.

All Consumers Are Not Alike

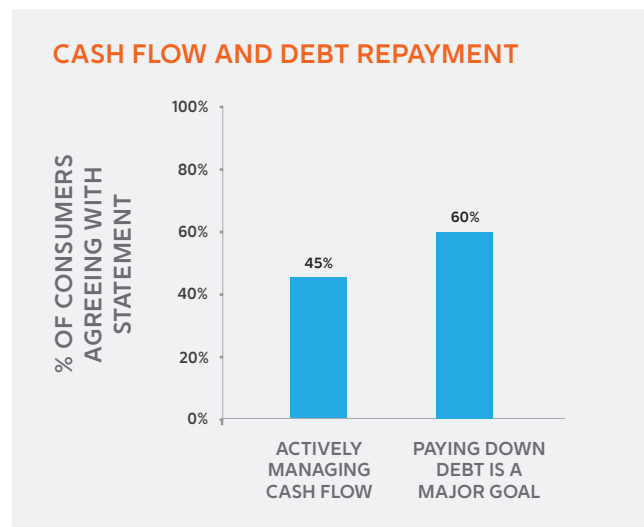
The "New Consumer and Financial Behavior" study analyzed consumers' behaviors, beliefs and attitudes across six consumer segments as summarized below. While this paper focuses mainly on aggregate results, it contains some useful information about variances in behaviors and attitudes among different consumer groups.

Consumer segments	Overview
Fast Trackers	Young technology enthusiasts who make and spend money and are always online
Young Aspirational	Younger consumers who are curious about technology, budget-conscious and need help saving money
Middle-of-the-Roaders	Traditional when it comes to using mobile technology, these consumers like to spend money despite moderate incomes
Value Seekers	Financially stable, older consumers who are motivated by rewards and frequently use credit cards
Simplifiers	Older, lower-income consumers with simple banking needs who are not that interested in new technology
Conventional Stalwarts	Older, traditionally-minded consumers who prefer to pay by cash and check, visit their bank often and are light users of technology

Note: See the white paper "[Meeting the Needs of the New Financial Consumer](#)" for more details on these consumer segments.

Consumers Focused on Managing Funds

Consumers are not currently very confident about their financial status: just 37 percent of respondents feel financially stable. In this environment, many people are taking steps to maximize their available money. Forty-five percent of consumers say they actively manage their cash flow to keep their account balances as high as possible. And for 60 percent of consumers, paying down debt is a major goal.

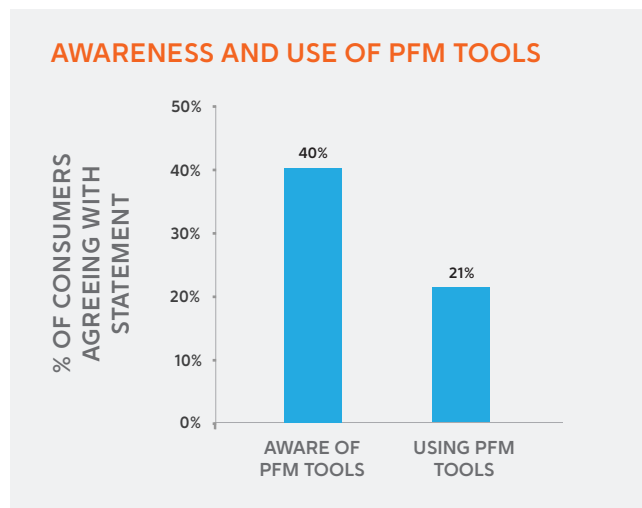


Opportunity for Financial Institutions to Promote Use of PFMs

Many banks and other financial institutions provide consumers with Personal Financial Management (PFM) tools to help them better manage their cash flow, understand their current financial situation and pay down debt. However, many consumers aren't taking advantage of these tools, which often include features to budget, track spending, and analyze spending and savings patterns.

Banks, credit unions and other financial institutions have an opportunity to help consumers better manage their finances by promoting their PFM tools (as shown in the chart below). While 40 percent of consumers say they are aware of them, just half that number (21 percent) actually use these tools. Especially in today's economy, PFM tools are a value-added benefit for consumers, and financial institutions would gain from making their customers more aware of available tools and their benefits. Encouraging consumers to use the PFM tools available through an institution's website is a potentially effective way to increase loyalty by making the institution a "one-stop shop" for financial support.

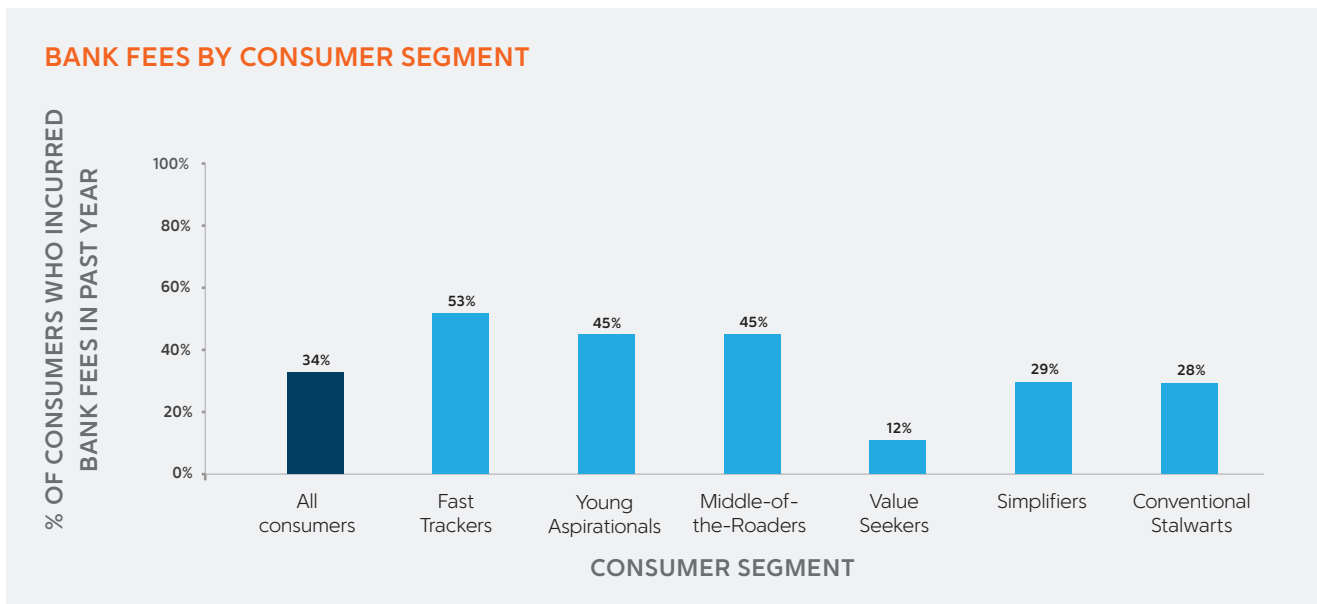
Currently, the most popular type of financial management tool used is account alerts—text or email notifications pertaining to payments, overdrafts, monthly statement availability or other account activity. Thirty-seven percent of consumers use account alerts, either from their bank or a PFM site/software. Usage jumps to 47 percent for Young Aspirational and to 70 percent for consumers in the tech-savvy Fast Tracker segment. Especially for these two groups, financial institutions should promote account alerts as an introduction to other available PFM tools, with the ultimate goal of creating customer loyalty by helping customers better manage their money.



Consumers Strive to Avoid Bank Fees

The financial services industry received considerable negative publicity during the financial crisis for not disclosing fees, leading to widespread consumer distrust of financial institutions. Nearly one-quarter of consumers feel that their institution now does a better job of explaining fees. Being transparent in communicating fees is critical to building trust with consumers at a time when they are trying to avoid charges as much as possible.

Two-thirds of consumers have managed to avoid banking fees in the past year. As shown in the chart below, some consumer segments are more successful at avoiding fees than others. While just 12 percent of Value Seekers pay any bank fees, more than half of Fast Trackers and almost one in two Young Aspirational and Middle-of-the-Roaders incurred fees in the past year. Account alerts via text message and PFM tools are a useful way for consumers to stay on top of their account status and take steps to avoid fees. Accordingly, financial institutions should promote account alerts and other PFM tools, especially to consumers in these groups. While banks and credit unions profit from fees, it may be a short-term gain, as 35 percent of consumers cite "lower fees" as a reason for switching banks—making it the number one reason for customer churn in the study.



Across all consumers in the study, the most prevalent type of fee was for ATM usage, incurred by 19 percent of consumers. Additionally, twelve percent of consumers paid a fee for overdrawing their account/bouncing a check.

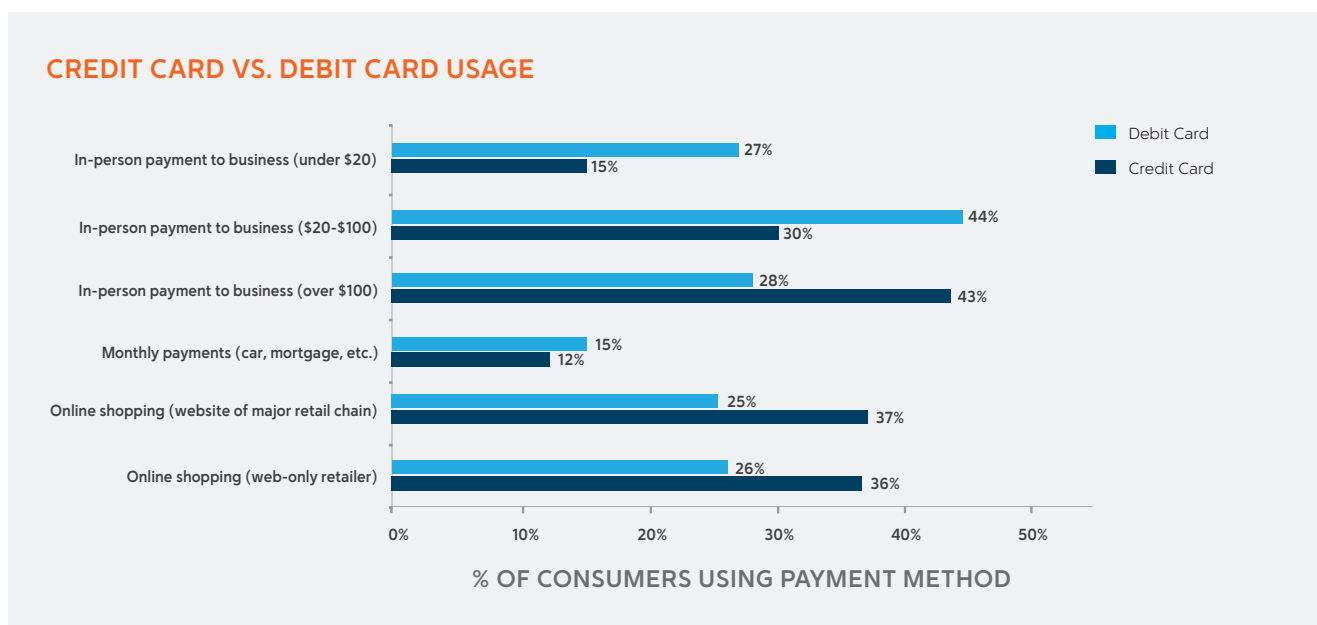
Credit Card Usage Down, Debit Cards Indispensable to Many Consumers

More than a quarter of consumers have reduced their credit card usage due to the banking crisis. This is negative news for financial institutions, which are already finding credit cards less profitable due to new legislation. Even more alarming for financial institutions, more than one-third of consumers say they avoid credit cards at all costs, and 40 percent give "high rates" as the reason for not using them. While these findings are true across all consumers in the study, they are most pronounced for two lower-income and potentially less-profitable consumer segments: Middle-of-the-Roaders and Simplifiers.

Despite the trend away from credit cards, there is something financial institutions can do to encourage their use: promote rewards programs. One-third of consumers say that rewards programs are a key motivator in using credit cards, and 88 percent of Value Seekers use credit cards whenever possible in order to maximize rewards.

While about an equal number of consumers say they've used credit cards (61 percent) and debit cards (64 percent) within the past six months, many consumers are highly reliant on their debit card, with 43 percent saying they'd be "lost without it." For Fast Trackers, Middle-of-the-Roaders and Simplifiers, debit cards are especially indispensable. When it comes to debit cards, financial institutions are in a tight spot. Debit cards are important to customer satisfaction, but new regulations may impact the economic viability of debit cards for many financial institutions.

As shown below, consumers prefer the convenience of debit cards for purchases under \$100. When it comes to bigger-ticket goods, consumers are more likely to use their credit card, which gives them time to pay for the item and provides a way to earn reward points. For online shopping, 36 percent of consumers choose to pay by credit card, compared to 26 percent using debit cards. For monthly payments such as car payments, mortgage payments and utilities, debit cards are slightly more popular than credit cards, although both are used significantly less than checks and online bill pay.



Implications for Financial Institutions

Despite the challenges imposed on consumers and financial institutions by the troubled economy, there are steps that banks, credit unions and other financial institutions can take to remain competitive and to build better relationships with their customers—leading to continued loyalty, usage of more products, and increased customer referrals:

- **Encourage use of PFM tools as a way to help consumers manage their money:** Sixty percent of consumers say they expect their financial institution to provide them with information and tools to help them make better financial decisions. PFM tools are a great way for consumers to take charge of their finances. Because PFM tools are frequently underutilized, financial institutions should promote them heavily, especially to consumers who could benefit the most and would be most likely to take advantage of them.
- **Make sure consumers are aware of rewards associated with credit card usage:** One-third of consumers use credit cards whenever possible to maximize rewards, and it's possible that other consumers are not aware of the benefits of using their credit cards. Rewards can go a long way toward building customer loyalty, and financial institutions should make sure that consumers, especially those who are most motivated by rewards, realize the benefits associated with credit card usage.
- **Recognize that all customers are not the same:** Three-fifths of consumers say they expect their institution to consider their individual circumstances, and slightly more than half expect their institution to offer products and services that match their lifestyle. Banks and credit unions will be more successful in any economy when they realize that a "one-size-fits-all" approach is not effective. Financial institutions may want to consider marketing campaigns to promote a more personalized banking experience based on an understanding of individual consumers' needs and goals.



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About Market Strategies International

Market Strategies International is a market research consultancy with deep expertise in the communication, energy, financial services, healthcare and technology industries. We design and implement the most intelligent research and deliver meaningful results that help companies make business decisions with complete and total confidence. Founded in 1989, Market Strategies is the 17th largest research firm in the U.S. according to "Honomichl Top 50," published in the June 2010 issue of *Marketing News*. Visit marketstrategies.com for more information.

Study Methodology

Market Strategies interviewed a national sample of 2,000 consumers aged 18 and up between March 17 and March 24, 2011. Respondents were recruited from the uSamp opt-in online panel of U.S. adults and were interviewed online. The data were weighted by age, gender and household income to match the demographics of the U.S. banked population. Due to its opt-in nature, this online panel (like most others) does not yield a random probability sample of the target population. As such, it is not possible to compute a margin of error or to statistically quantify the accuracy of projections.

For more information, contact your First Data Representative or visit firstdata.com.