2018 **FIS PACE FINDINGS**

*Performance Against Customer Expectations (PACE)*

# WHAT'S Now + NEXT

**for Consumer Banking in the United States**

**fisglobal.com/PACE**

FIS

## Introduction

Now in its fourth year, the annual FIS™ Performance Against Customer Expectations (PACE) findings offer a clear view into how well banking providers are meeting the needs of their customers. For 2018, FIS surveyed U.S. consumers and asked them to rank the importance of nine key attributes – simplified from the 18 attributes of previous years – and then score their primary banking provider's performance in those areas. These nine key attributes are built into FIS' RUN-CONNECT-GROW model, which represents a bank's levels of service and the steps to achieve success.

### RUN

The foundation of a successful relationship with consumers

**Operate the bank reliably, safely, fairly and efficiently**

**Trust**–Does what it promises and does what is right for me

**Simplicity**–Offers the right products/services for my lifestyle that are easy to understand and simple to use

**Convenient locations**–Has convenient branch locations for me to take care of my banking needs

### CONNECT

The ability to keep pace with connected consumers

**Connect consumers with their finances**

**Digital self-service**–Allows me to do things for myself anywhere, anytime through digital channels

**Human touch**–Provides me the opportunity for personal, human interaction through branch, telephone, and/or live chat

**Immediate**–Responds fast enough to keep up with me

### GROW

Consumers relationships that lead to top and bottom line growth

**Grow the bank by investing in capabilities that enable consumers to grow**

**Recognition**–Rewards me for my business

**Digital payment**–Provides a digital app for me to make retail, bill and person-to-person payments with my smartphone, tablet or wearable device

**Control**–Helps me gain/keep control over my finances

## Summary Findings

- Better than 8 out of 10 U.S. bank consumers are satisfied with their banking relationships, but favorability skews heavily toward smaller community banks and credit unions.
- **The great wealth transfer.** Consumers are broadly unprepared for retirement or a transfer of wealth. Amazingly, just 10 percent believe they'll inherit any assets, even though $30 trillion is on deck to change hands.
- **Mobile is now the main branch.** All generations except baby boomers (and older) bank on their phones and tablets more than via desktop PCs, ATMs or physical branches.
- **Feature parity is here.** Smaller banks that introduce features like P2P payments see rapid adoption, and it has never been cheaper or easier to add "big bank" digital capabilities.
- **Security is a double-edged sword.** Consumers are happy with their provider's security and privacy, but one in four consumers who switched or plan to switch banks have experienced fraud.
- **Education is job one.** Nurture must become second nature for banks to grow, and deploying trusted financial advice across channels, assets levels, and price points (including free) is essential to success.

## Priorities for Banking Providers

1. **Digital Transformation** – Consumers now expect the same digital capabilities – mobile deposits, transfers, account opening, digital payments, mobile wallets, etc.– from credit unions and community banks as they do from larger banks. And given how affordably and quickly such features can be rolled out, these are reasonable expectations.
2. **Multilayer Security** – Smaller banks are now prime targets of hackers moving down the food chain as larger banks harden their defenses. Banks must insulate themselves and their customers with multiple layers of security from the core to the edge, technology-driven fraud monitoring and threat detection, and rigorous response plans.
3. **Wealth and Investing** – With GenMX and young millennials eager to improve their finances, banking providers can capture more accounts by adding wealth management solutions to accompany multichannel financial education, which should include everything from basic information to digital (robo) advice to traditional financial advisory.
4. **Open Banking** – The transition to open banking, when awareness remains low, presents an opportunity for banks to leverage consumers' favorable views of their security, engage trusted technology partners and add a host of ancillary products and services. This is likely the most efficient, agile way to add the services consumers want now and in the coming years.

# Consumers Value Trust and Ease Above All

When evaluating their banking relationships, U.S. consumers overall value their needs for Trust and Simplicity most, but baby boomers see Convenient Locations as key, while all younger generations rank Digital Self-service as more important. Digital Payment is most important to young millennials, who are passionate users of person-to-person (P2P) payments.

### Most Important Attributes, by Consumer Segment

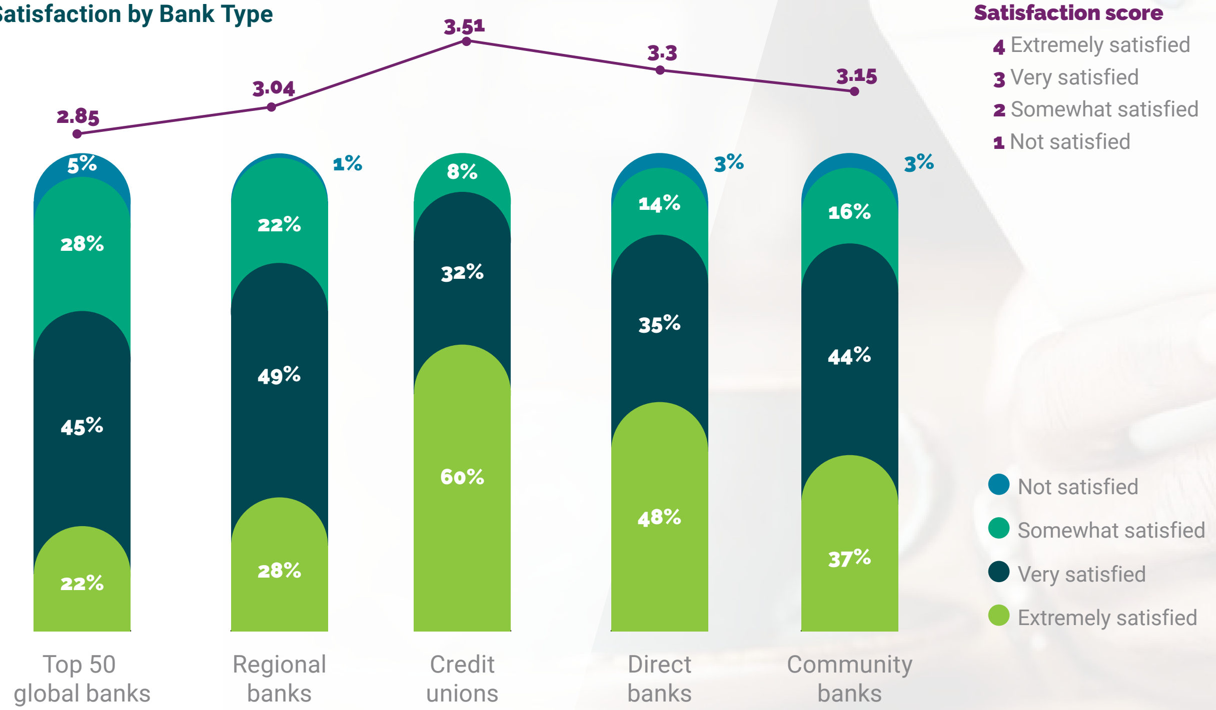
Building on 2017 FIS PACE findings, this year we've included a segment for GenMX, which combines senior millennials and Gen Xers due to their similar incomes, banking habits, and life events.

| Rank | Young millennials (18 – 26) | Senior millennials (27 – 37) | Gen Xers (38 – 52) | Gen MXers (27 – 52) | Baby boomers (53 – 71) | Overall |
|---|---|---|---|---|---|---|
| 1 | Trust | Trust | Trust | Trust | Trust | Trust |
| 2 | Digital Self-service | Digital Self-service | Digital Self-service | Digital Self-service | Simplicity | Simplicity |
| 3 | Simplicity | Simplicity | Convenient Locations | Simplicity | Convenient Locations | Digital Self-service |
| 4 | Control | Control | Simplicity | Convenient Locations | Human Touch | Convenient Locations |
| 5 | Digital Payment | Convenient Locations | Human Touch | Control | Digital Self-service | Human Touch |
| 6 | Convenient Locations | Human Touch | Control | Human Touch | Control | Control |
| 7 | Human Touch | Digital Payment | Digital Payment | Digital Payment | Digital Payment | Digital Payment |
| 8 | Recognition | Recognition | Recognition | Recognition | Recognition | Recognition |
| 9 | Immediate | Immediate | Immediate | Immediate | Immediate | Immediate |

# The Smaller the Bank, the Bigger the Love – Still

Overall, 82 percent of U.S. bank customers are "extremely satisfied" or "very satisfied" with their primary banking providers. Credit union members once again are much more satisfied, and customers from top 50 global banks are much less satisfied with their banks. Unsurprisingly, customers from large banks – top 50 or regional banks – are most unsatisfied with the fees they incur.

**Satisfaction by Bank Type**




While it has yet to hit a tipping point where big bank customers jump ship in favor of the personal service offered by smaller local banks, some of this year's PACE findings suggest it may not be too far off. The big lead amassed by the top 50 global banks in digital banking is quickly evaporating, and consumers can now be served practically anywhere by any bank with the right digital offerings.

**8 in 10 U.S. consumers are satisfied or very satisfied with their primary banking provider.**

In terms of the nine key attributes, U.S. consumers report being overall satisfied by their banks' performance in all but one category: Recognition. Some 55 percent of consumers feel their banking providers fall short in terms of "rewarding me for my business," which is consistent with prior years' PACE findings.

# The Life Event That's About to Blindside Everyone

Last year's PACE findings showed that banking providers would succeed best by aligning their outreach and product offerings with the key events happening in their customers' lives. This year, our survey dug further into consumers' key life events and found that many consumers are unprepared for receiving a wealth transfer.

**Expected Life Events (2 – 3 years)**


In fact, the results suggest consumers may be poorly informed about how wealth transfers, even small ones, work: Just 10 percent of consumers expect to receive one in the approaching 10 years. Consumers in the Gen MX supersegment – those most likely to see assets passed down from elderly parents and grandparents – are even less expectant of inheritances.

**Only 1 in 10 consumers expect to receive a wealth transfer in the next decade.**

This is out of proportion with the expected $30 trillion expected to change hands in the coming decades and counterintuitive to such common facts as nearly 80 percent of baby boomers owning property that they will pass on to younger generations. Wealth transfers are not just for high net worth and wealthier consumers, and they don't just happen upon death. This gap in understanding further highlights banks' growing responsibility to be a trusted advisor and educator in their customers' lives.

**Planning for the Financial Future**


This presents a tremendous opportunity for banking providers on two fronts:

## Retirement Readiness

"Planning for retirement" is the second-most anticipated life event, especially with the high-income GenMX supersegment of consumers. With all signs pointing to a pullback in Social Security and an ever-increasing life expectancy, consumers facing retirement in the next 20 years need to be more prepared than ever for the length and costs of retirement. Without preparation, which the primary banking provider can help with, consumers may not be able to provide that desired wealth transfer to their own families decades from now.

## Wealth Transfers

While financial institutions are the most preferred source for millennials (33 percent) to consult about inheritances, financial institutions could better target Gen Xers and baby boomers, the two consumer segments most likely to deal with inheritance and estate planning in the coming decade. Approximately 48 percent of Gen Xers would rely on a friend or family member's help, and one-third of baby boomers would try to handle it all by themselves.

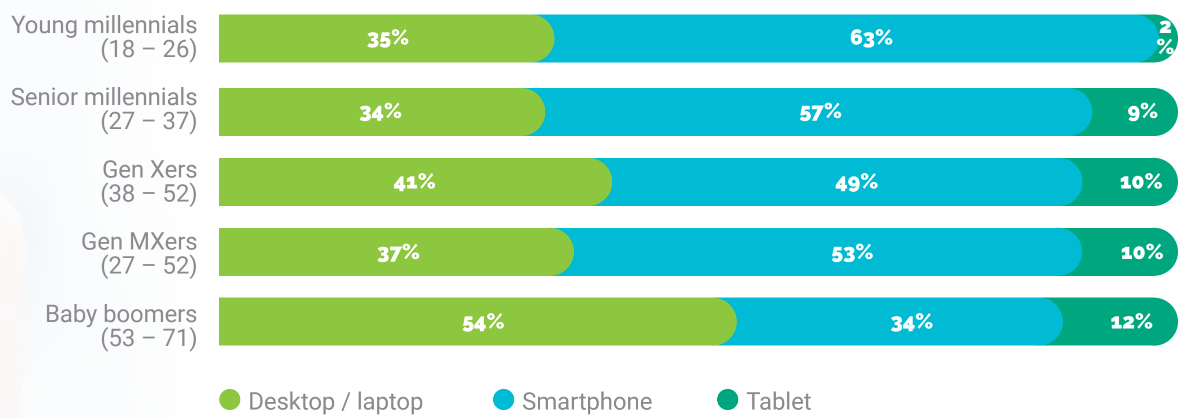
The institutions best positioned to benefit are banking providers that also provide financial advisory services to their customers.


# Mobile Is the Main Branch

As the overall 2018 PACE results show, Digital Self-service is a high priority for consumers under the age of 53, so it should not be a surprise to learn that these same consumers, from young millennials through Generation X, now use their mobile phones and tablets to interact with their primary banking providers far more than via desktop PCs, ATMs and physical bank branches.

**72 percent of all bank contacts are digital, with millennials leading the way.**

**Digital Interactions with Banks, by Segment**




## Usage Continues to Climb

In general, 42 percent of consumers report that they use their bank's mobile app more now than they did a year ago. This highlights a needed shift in strategic thinking for banking providers, especially smaller ones, as their mobile interfaces – not their physical locations or even their personnel – are now the "face" of the bank. A lacking or poorly performing mobile application is now enough to turn off potential new customers, something no bank can afford.

**42 percent of consumers use their bank's mobile app more now than they did a year ago**

# Feature Parity Is Here

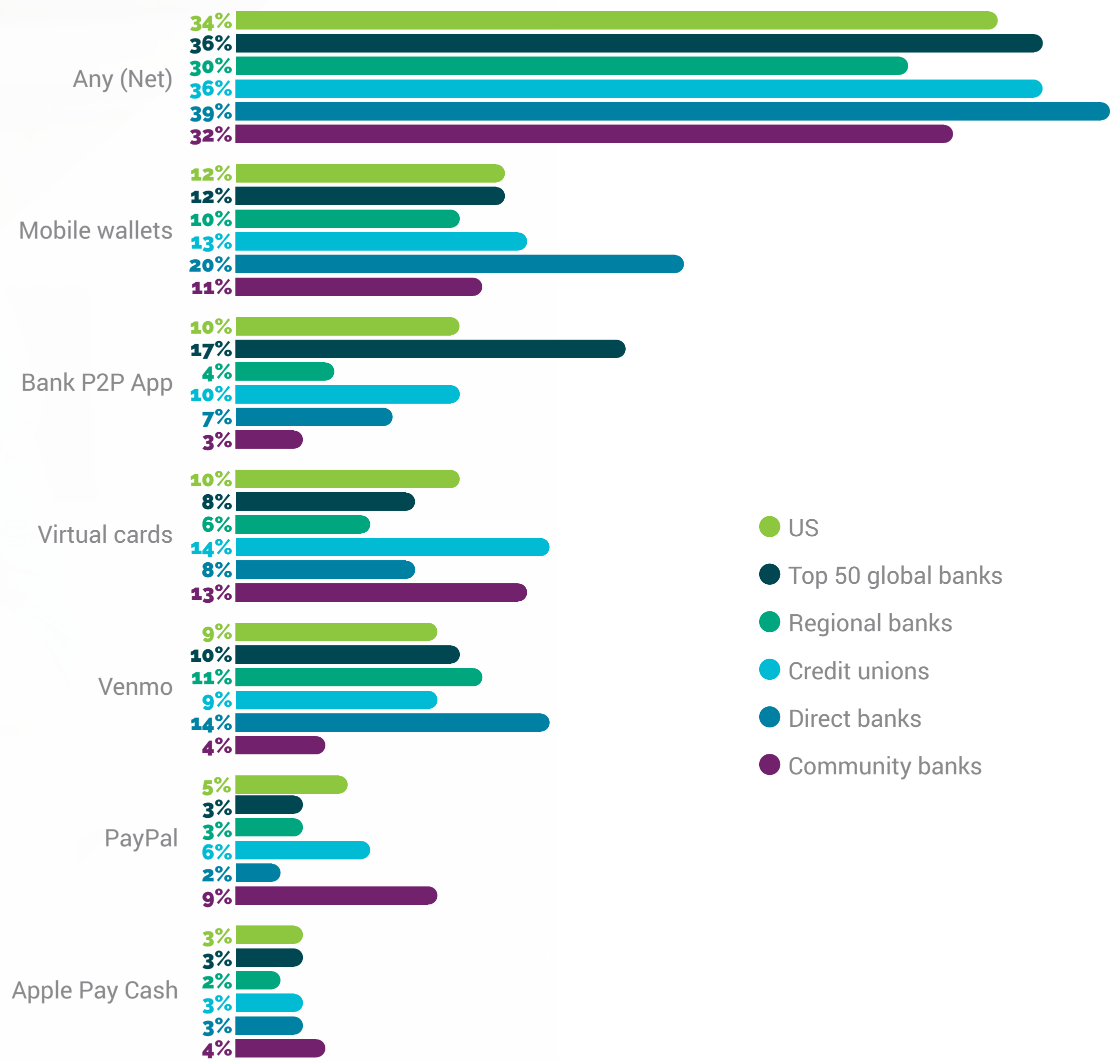
Smaller banking providers can no longer delay digital transformation. Consumers now expect the same digital capabilities – mobile deposits, transfers, account opening, digital payments, mobile wallets, etc. – from credit unions and community banks as they do from larger banks. And given how affordably and quickly financial institutions can roll out such features, these are reasonable expectations.

**Consumers now expect similar digital capabilities from credit unions and community banks as they would from a larger bank.**

# Add It and They Will Use It

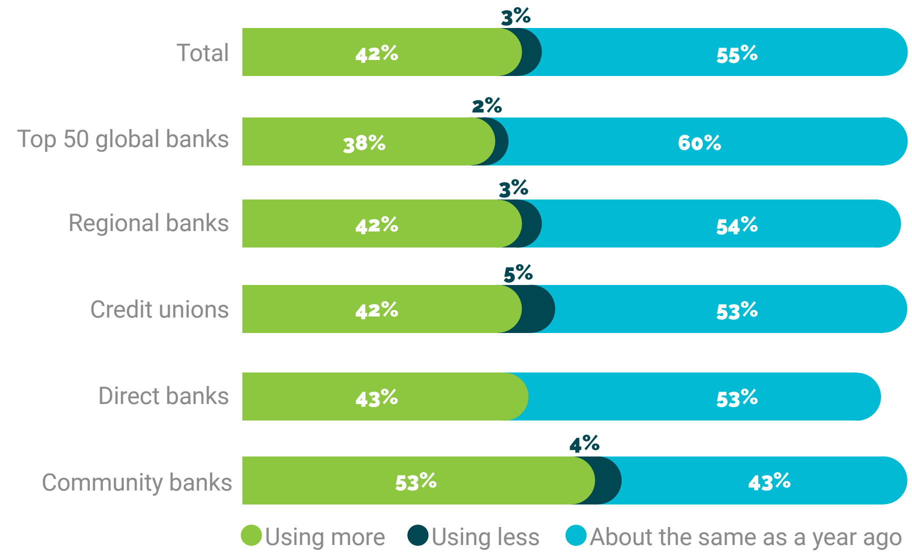
Bank-provided P2P payment services are catching up quickly with popular third-party apps like Venmo and PayPal, especially for customers of top 50 global banks. With the rollout of bank-sponsored payment networks like Zelle® and PeoplePay, banks can now add P2P payments quickly and affordably.

### Use of Digital Payments, by Bank Type



Notably, community bank customers now use mobile apps more aggressively than customers from other types of banks, with more than half (53 percent) claiming to use apps more now than one year ago, a likely result of recent rollouts of new mobile features.

### Mobile App Usage, by Bank Type




## A Word About Open Banking

Consumers are doing more "core" business on financial mobile apps, such as making investments, applying for loans and even opening new accounts. This will only continue as open access banking makes its way into the mainstream.

With open banking, banks make their data accessible to verified third parties via a set of secure application programming interfaces (APIs). In time, this will allow bank customers to add other financial services such as insurance or investments through other providers, all under a single user interface.

The transition to open banking, while awareness is low, presents an opportunity for banking providers to leverage consumers' favorable views of their security and privacy protocols, engage the right tech partners and create a win-win situation that expands usage of and loyalty to their services. As the 2018 PACE findings show, this might be one of the best and most agile approaches for banks to add the ancillary products and services their customers want.

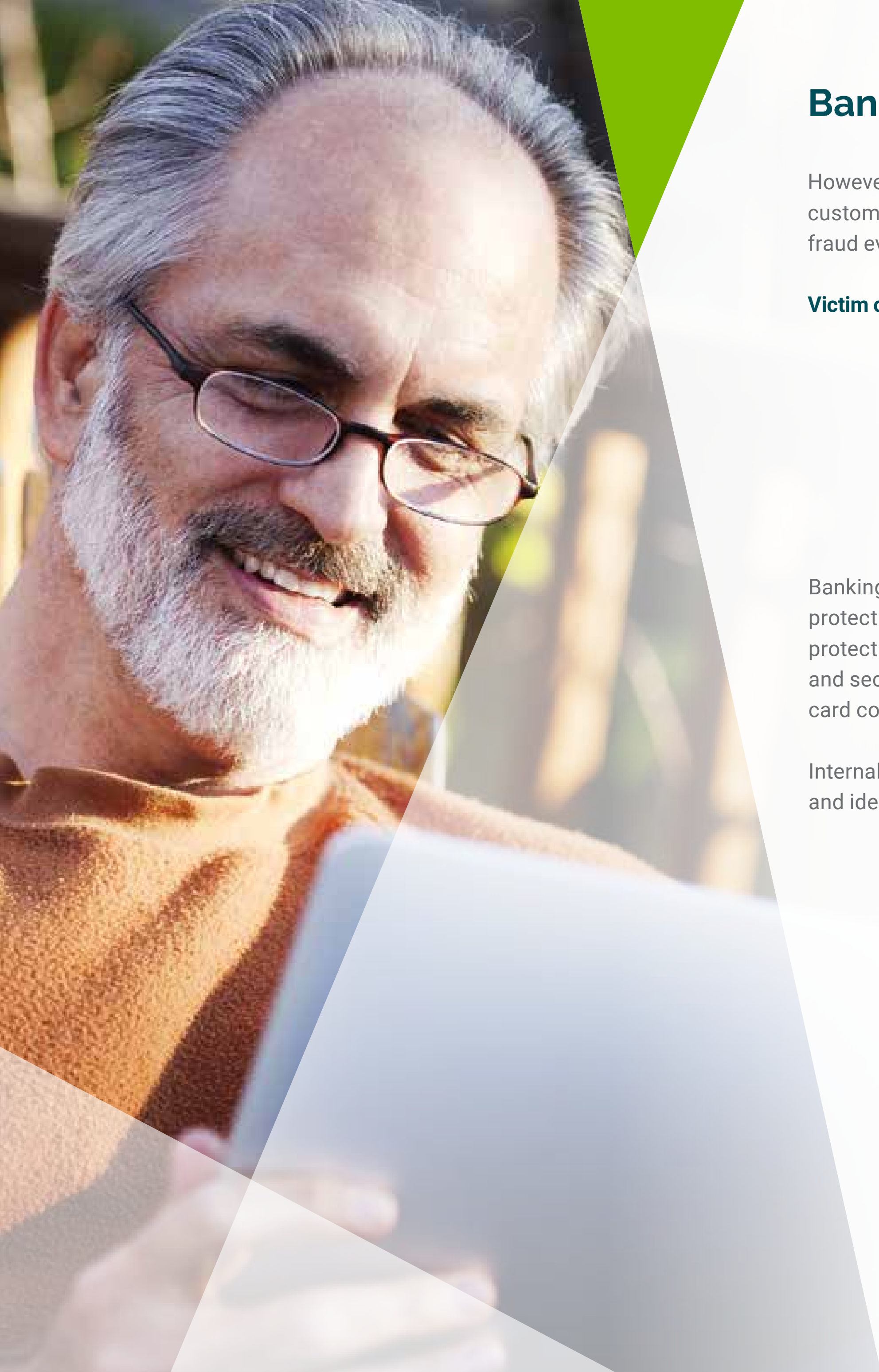
# Security Is a Double-edged Sword

In general, consumers feel safe and secure banking with their primary financial institutions, giving the attributes of “ensures that my transactions are safe and secure” and “protects the privacy of my personal information” (per the survey) the highest scores of all the performance metrics in the PACE survey

**Consumers’ View of Primary Banking Providers, Overall**

**96% of consumers agree** — My primary banking provider ensures that my transactions are safe and secure.

**94% of consumers agree** — My primary banking provider protects the privacy of my personal information.

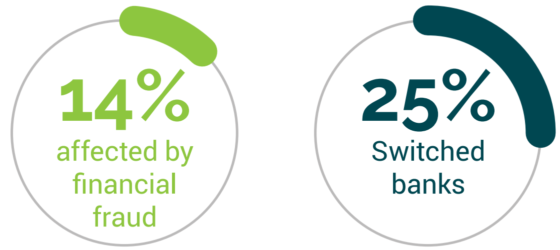


# Banks Get Burned When Customers Get Burned

However, this faith and trust can quickly turn against banking providers. If a security lapse happens, customers are far more likely to switch banks. In fact, one in four U.S. consumers who experience fraud eventually go on to switch banking providers.

**Victim of Financial Fraud**

**1 in 4 consumers who switched or plan to switch banks have experienced fraud.**




Banking providers not only need to institute multilayered security protocols from the core out to protect their institutions from malicious threats, they must also give their customers the tools to protect themselves and their accounts. This includes education about how to keep accounts private and secure as well as adding tools like two-factor authentication, fraud monitoring, push notifications, card controls and other protection features.

Internally, big data and machine learning present opportunities for improving internal security controls and identifying security risks as they emerge, not well after the fact.

| Securing the Core | Securing the Network | Securing the Consumer |
|---|---|---|
| Database security | Network scans | Biometrics |
| Backup and disaster recovery | End-user monitoring | Card controls (lock, report fraud, etc.) |
| Operating security | Real-time response | EMV chips |
| Audit trails | End-to-end data encryption | Fraud monitoring |
| Penetration testing | Internet security | Push notifications |
| Source code reviews (automatic and manual) | Staff training | Two-factor authentication |
| | | Virtual cards |

# Education Is Job One

Much of the 2018 PACE findings demonstrate a gap between where consumers are and where they want to be, financially. Banking providers are well-positioned to serve as the trusted sage – the Yoda to young Skywalker, or old Skywalker to young Rey – to consumers eager to learn about or hand off managing their finances.

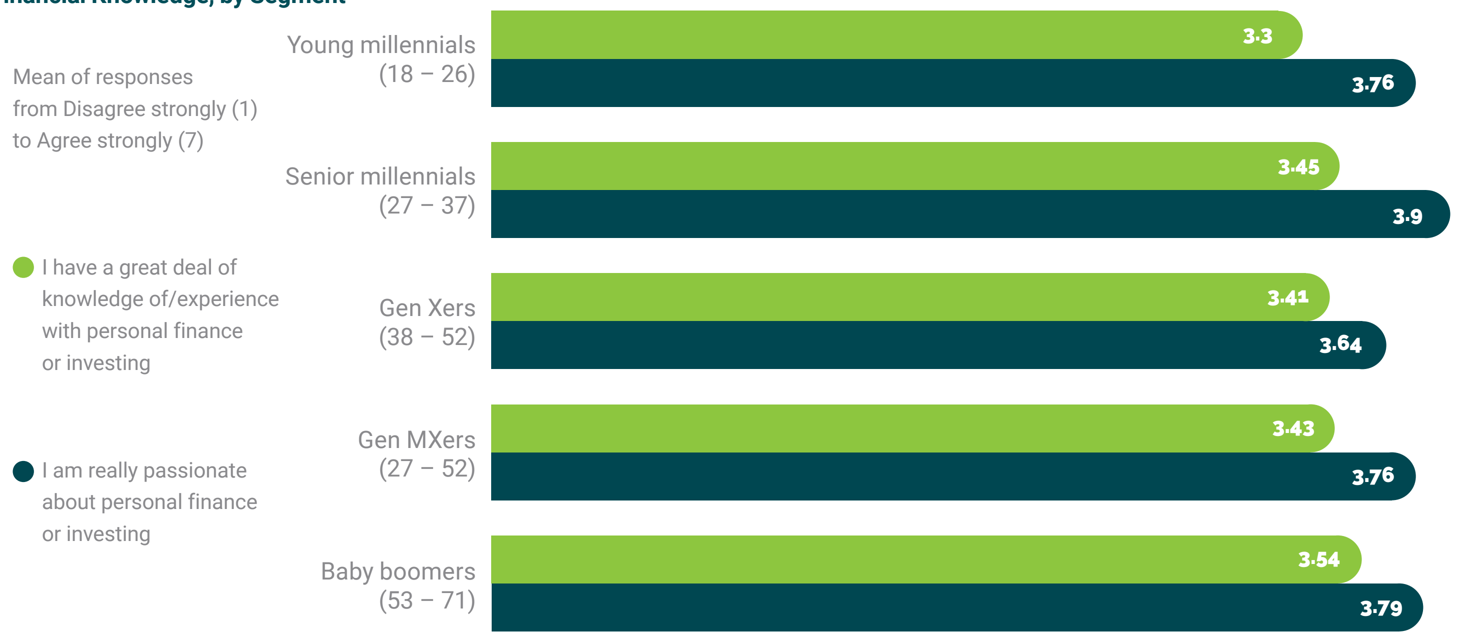
**With Trust most important to consumers, banks are well positioned to expand their advisory role and services.**

# The "Show Me" Generation

Compared with older generations, millennials are less confident about personal finance and investing but are passionate to learn about these topics. Research and anecdotal evidence suggest that millennials also prefer learning via a range of modalities – videos, graphics, how-to articles, mobile apps, etc. – as opposed to traditional prescriptive learning. As such, we've come to think of this eager cohort as the "show me" generation.

Millennials scour generic financial websites (NerdWallet, Bankrate, etc.) and banks' websites for educational content. As such, providers' websites, in addition to their mobile applications, deserve intense focus and investment. Educational content, coupled with big data analytics, helps banks to understand which financial products are a good match for a customer. For example, a bank can identify a returning customer's interest in a mortgage based on viewed content on its website, which can then drive a timely, relevant marketing offer based on the customer's known transactions and credit profile.

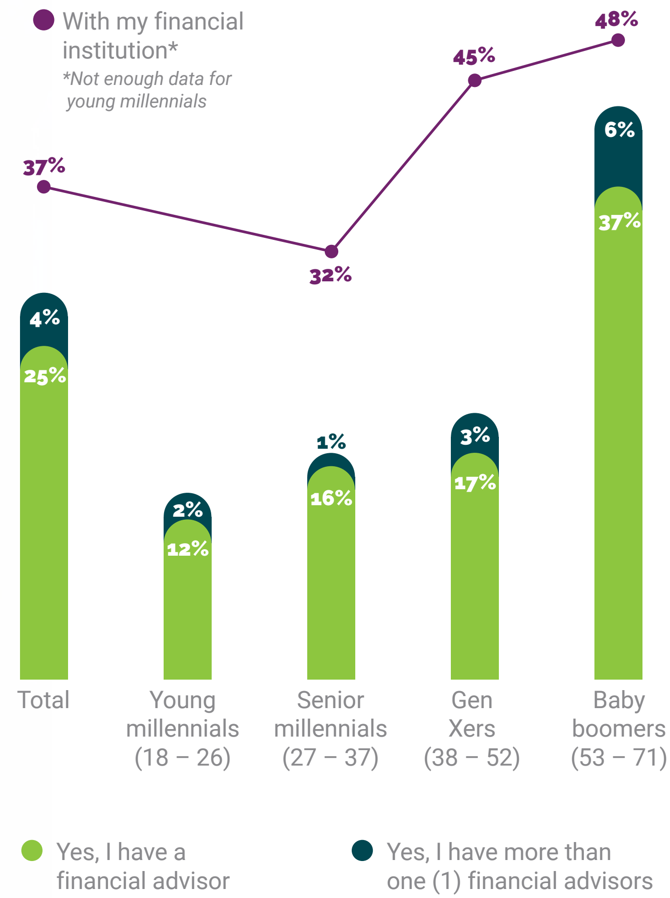
**Financial Knowledge, by Segment**



# "First Provider" Advantage

In general, consumers have only one financial advisor, so once a customer signs up for advisory services, that advisor likely captures the customer's total business. This presents a "first provider" opportunity for banks: Provide advisory services to a customer first and retain that customer's long-term business.

### Have a Financial Advisor




One way to do both is to provide a complimentary financial advisory session for new accounts. This gives new customer clear recognition and reward for their business – a longstanding weak area for banks – and gives banks the coveted "first provider" advantage to win that customer's business.

# Meet Customers Where They Are

According to the PACE data, the top reason consumers don't have a financial advisor of any kind is because they don't believe they have enough personal assets to warrant one. Again, as seen with wealth transfers, consumers need to be better informed about the realities of their financial situations and that advisement is not a luxury but often a necessity as assets accumulate over time.

**Why don't consumers have a financial advisor?**

I do not have enough money/assets to warrant a financial advisor.


The emergence of passive investing (target-date ETFs, fractional shares, algorithm-driven management, etc.) gives banking providers a way to overcome this barrier by offering various levels of financial education and advisory services for different assets and comfort levels. The effort and investment required to add such features – which, like P2P payments, were once exclusively for "big banks" – continues to drop, and those small banks that are early entrants in the space stand to benefit the most.

**Multichannel, Multilevel Financial Advisory (Example)**

| | | | | |
|---|---|---|---|---|
| **Assets** | <$99,999 | $100,000 | $200,000+ | $500,000+ |
| **Channel** | Online | Online + financial app | App + informal contact* | Informal* + in-person |
| **Content** | Generic, evergreen, informational | Tailored to market, delivered directly | More personal, responsive to questions | Highly personal, proactive with account-driven insights |
| **Advisory** | Self-driven (DIY) | Digital/roboadvice | Blended; traditional + robo | Traditional |
| **Typical Fees** | 0% | 0.25% | 0.40% | 0.50%+ |
| | *Nurturing sophistication and trust over the customer's lifetime* | | | |

*Email, phone, online chat, video chat

FINAL WORD

## Are You Ready to Be a Helicopter Bank?

As this year's PACE findings show, banks face the daunting challenge of meeting their customers' expectations to be always-on, to remain distant but always be accessible, to be a trusted long-term advisor and to be there in the exact moment of need. These expectations mirror in many ways the "helicopter parenting" that played a part in raising millennials. What younger consumers expect from parents and employers, they now also expect from their banks: helicopter banking. Banks that can pull off this great balancing act – with the right mix of technology, products, service, education and outreach – are poised to see outsized growth as the great wealth transfer gets underway. Obviously, many banks are not today outfitted for such a task. But with industrywide digital transformation underway and the arrival of feature parity (and, soon, open banking), it has never been easier or more affordable for banks to rapidly upgrade their systems and add capabilities.

## About the FIS PACE Survey

Since 2015, FIS' annual Performance Against Customer Expectations (PACE) survey findings have provided a snapshot of how well U.S. banking providers are meeting the expectations of customers. For the 2018 report, we surveyed 1,788 U.S. consumers across all age and sociodemographic segments and asked them to rank the importance of nine key performance indicators (KPIs) for banking and then to rate their primary banking providers' performance against those expectations. We also surveyed respondents about a range of emerging and established banking trends. In addition to the broader U.S. consumer banking PACE Report, this year FIS has published its second annual report on small-to-midsize business (SMB) banking as well as its first report from a survey of leading bank executives in the U.S.

## Methodology

The online survey was conducted by GfK Custom Research in January 2018. This is the fourth year FIS has conducted the market-defining PACE survey. The sampling was as follows:

| | Consumer study | | | | SMB study | | Bank executive study | |
|---|---|---|---|---|---|---|---|---|
| **Country** | U.S. | U.K. | Germany | India | U.S. | U.K. | U.S. | U.K. |
| **No. of respondents** | 1,788 | 1,074 | 1,067 | 1,018 | 321 | 253 | 355 | 355 |
| **Segments (with over-samples)** | Community banks: 535 | | | | | | | |
| | Credit unions: 619 | | | | | | | |

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# About FIS

FIS is a global leader in financial services technology, with a focus on retail and institutional banking, payments, asset and wealth management, risk and compliance, and outsourcing solutions. Through the depth and breadth of our solutions portfolio, global capabilities and domain expertise, FIS serves more than 20,000 clients in over 130 countries. Headquartered in Jacksonville, Florida, FIS employs more than 53,000 people worldwide and holds leadership positions in payment processing, financial software and banking solutions. Providing software, services and outsourcing of the technology that empowers the financial world, FIS is a Fortune 500 company and is a member of Standard & Poor's 500® Index. For more information about FIS, visit www.fisglobal.com.