Financial institution (FI) trends and challenges

A 2023 guide for marketers

It's hard to imagine a more challenging time to be a financial institution (FI) marketer, thanks to a perfect storm of daunting macroeconomic conditions and market circumstances.

But it's potentially also an incredibly *rewarding* time to be a FI marketer — because consumers right now are hungry for guidance and clarity.

For marketers who see their mission as not just selling to, but serving, consumers, 2023 presents a seize-the-moment opportunity to hone messaging in the marketplace in a way that foregrounds not just financial products but financial solutions.

Striking the right tone in financial institution messaging and marketing requires a clear-eyed view of the current consumer landscape. Toward that end, we've identified six key trends that FI marketers need to stay on top of throughout 2023.

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Slumping consumer confidence in the financial system in the wake of high-profile bank failures is creating a major marketing challenge

The collapse of Silicon Valley Bank (SVB), Signature Bank and First Republic Bank — three of the largest bank failures in American history — has cast a long shadow over the entire U.S. financial industry. And that shadow has extended globally (as of this writing, UBS was on a path to acquire Credit Suisse in an emergency rescue facilitated by the Swiss government). Given the sheer size of the institutions involved, the failures will likely have major market repercussions for years to come.

Meanwhile, new survey data suggests that consumers are increasingly uneasy about the banking sector. "Only 10% of the public has a great deal of confidence in the nation's banks and financial institutions," the Associated Press reported on March 22 about a poll it conducted with the University of Chicago's NORC Center for Public Affairs Research. "Trust in the banking industry declined since 2020, when 22% said they had a great deal of confidence in the people running it."

"Brands are, of course, built on a foundation of trust," says Erin Slater, VP of Business Development at Quad. "When an industry sector is itself under a cloud of doubt, marketers must redouble their efforts to communicate a message of stability and reliability to consumers."

10%

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Continuing M&A activity in the financial sector will continue to complicate the picture for consumers — and FI marketers

Signature Bank was 21 years old when it collapsed. First Republic Bank was 38. And Silicon Valley Bank was 39. (Credit Suisse — which as of this writing remains operational as an independent entity while its acquisition by USB is being fast-tracked — is 166 years old.)

The sudden disappearance of banking brands that consumers relied on for decades is, to say the least, jarring — but it's important to remember that mergers and acquisitions (M&A) activity was driving financial institution consolidation well before this year's banking crisis. For instance, in January 2022, The Financial Brand reported that credit unions were "buying banks at a breakneck pace" across the U.S. and that such acquisitions "may be helping credit unions gain ground" by adding millions of members. (An economist with the Federal Bank of St. Louis noted in 2019, as the trend was just starting to accelerate, that it was due in part to the fact that "credit unions might be willing to pay a higher price because of their favorable tax treatment.")

The National Credit Union Administration reported in March that membership in federally insured credit unions reached 135.3 million in the fourth quarter of 2022 — an increase of 5.8 million members over the year — while total assets rose by $108 billion, or 5.2%, to $2.17 trillion over the same period.

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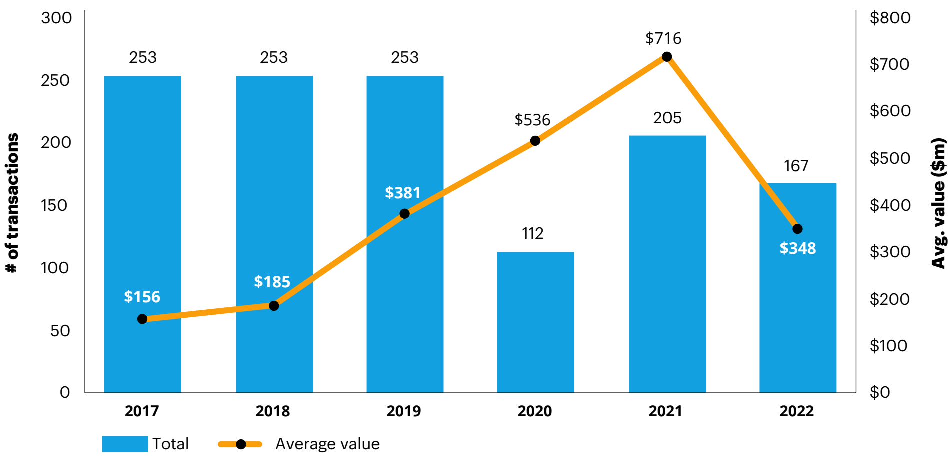
It's worth noting that Deloitte, which tracked 167 completed M&A transactions among financial institutions in 2022, totaling $22.6 billion, struck a cautious note in its 2023 outlook: "Many banks and financial institutions have halted mergers and acquisitions (M&A) plans while waiting for market uncertainty to stabilize and interest rates to level off."

That said, it remains to be seen if lingering instability — or at least the perception of instability — in the banking sector will result in additional consolidation. Regardless, M&A activity will continue to create marketing and messaging challenges as millions of customers each year suddenly find their assets transferred to an unfamiliar institution that acquired the brand they knew and trusted for years.

Banking M&A metrics



Source: SNL Financial and S&P Global Market Intelligence
Note: Avg. deal size is based on disclosed deal values. 33%, 37%, 43%, 54%, 48% and 61% of reported deals did not disclose deal values for FY17, FY18, FY19, FY20, FY21 and FY22 respectively.

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Consumers continue to be highly impacted by interest rate hikes — creating new messaging imperatives for FI marketers

In early May, the Federal Reserve announced yet another increase in the benchmark interest rate — the tenth hike since March 2022 and part of a plan to rein in inflation — though the Fed indicated it was likely to pause additional hikes in the future.

For consumers, the Fed's inflation-busting plan has come up at considerable cost: At the start of spring 2023, Bankrate declared that the average credit card interest rate had hit a record high of 20.4%. Furthermore, "A total of 35% of Americans carry credit card debt from month to month"— per Bankrate's January 2023 survey of 2,458 U.S. adults — "an increase of 6% from 2022."

Remarkably, Bankrate's survey also found that 43% of consumers are unaware of the interest rate of their credit card(s). That perilous blind spot was exacerbated by the fact that, also per Bankrate's survey, 37% of U.S. adults with credit card debt don't know about the existence of 0% credit card transfer offers for new cardholders — a surprising awareness gap that points to yet another marketing challenge and opportunity for FI brands.

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37% 37% of U.S. adults with credit card debt don't know about 0% credit card transfer offers

'Crypto winter' continues to impact the financial industry

The spectacular November 2022 collapse of cryptocurrency exchange FTX came just 10 months after crypto seemingly went mainstream — at least from a marketing perspective. Crypto firms had such a prominent presence in February 2022's Super Bowl LVI (FTX, Coinbase, eToro and Crypto.com all aired ads) that it was dubbed the "Crypto Bowl" by ad-industry pundits.

FTX's bankruptcy came amid a dramatic decline in the value of cryptocurrencies — the so-called "crypto winter" — in the latter half of 2022 that cast a pall over the very idea of digital currencies.

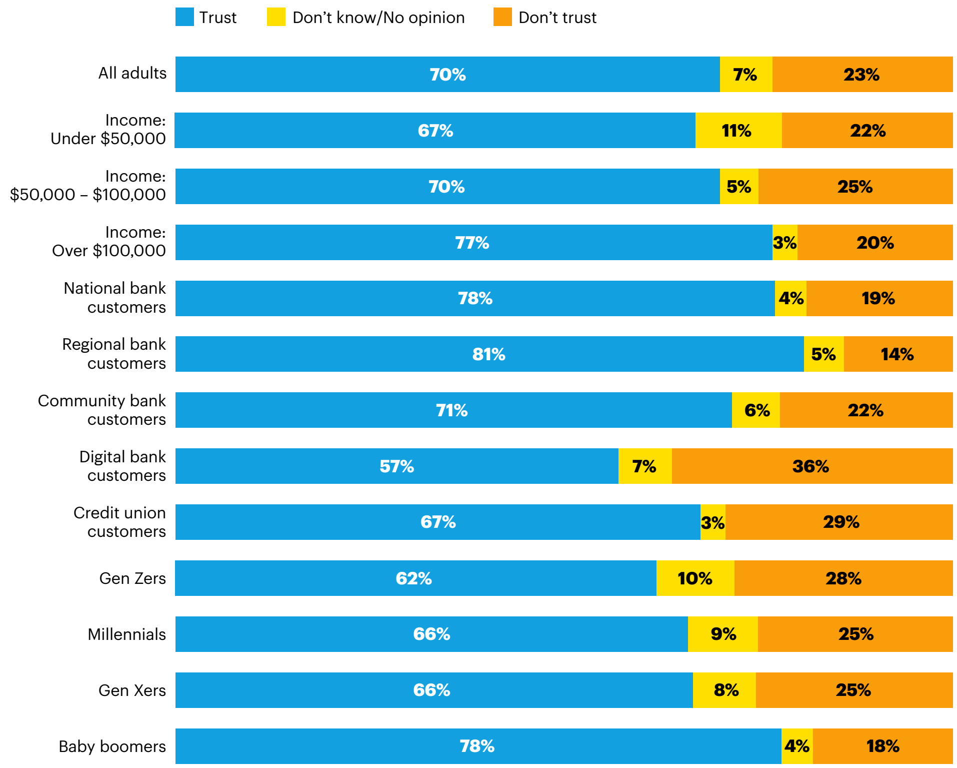
"The carnage was not merely financial," New York Times columnist David Segal wrote in January of this year. "The reputation and promise of crypto has been badly tarnished. Once touted as the future of money, a challenge to the world's central banks, not to mention a clever investment, crypto now carries the odor of disaster."

As a November 2022 bulletin issued by the Consumer Financial Protection Bureau noted, "Even large financial firms have begun offering and marketing crypto-asset custodial services to certain customers" and that "as these offerings have increased, so too have consumers' complaints to the CFPB related to crypto-assets." And in the wake of Signature Bank's collapse, much was made of the fact that it had high exposure to crypto — as did Silvergate Bank, another lesser-known but well-established bank that also failed in March. (Silvergate Bank predates the crypto boom and bust by decades; it was founded in 1988 as a savings and loan association.)

In other words, some of crypto's "odor of disaster" wafted over to the legacy banking sector.

That said, legacy banks may be better positioned to retain and build consumer trust at the moment. A Morning Consult poll released in March found that just 57% of digital bank customers trust their bank "to do what is right" — vs. 81% for regional bank customers, 78% for national bank customers, 71% for community bank customers and 67% for credit union customers.

Shares of U.S. adults who trust or don't trust banks to do what is right



Source: Morning Consult
Survey conducted March 13-15, 2023, among a representative sample of 2,190 U.S. adults, with an unweighted margin of error of +/-2 percentage points. Figures may not add up to 100% due to rounding.

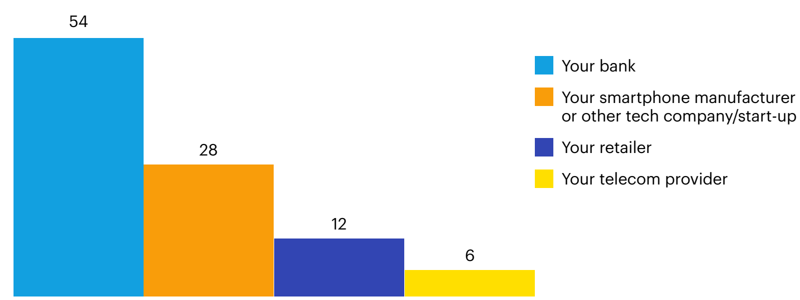
Consumers are looking to their own banks for digital banking solutions

While cryptocurrency exchanges and upstart fintech brands have gotten plenty of credit for driving the adoption of digital financial services in recent years, legacy FI brands have been launching more and more digital products and services of their own — a shift that was only accelerated by the pandemic.

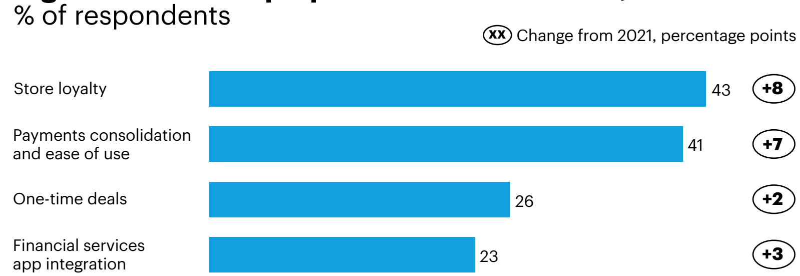
According to McKinsey's 7th annual Digital Payments Consumer Survey, released in October 2022, 89% of Americans are using some form of digital payments. Furthermore, McKinsey found, "More than two-thirds of Americans expect to have a digital wallet within two years, and it's likely that many will hold multiple wallets. Our 2022 survey revealed a marked increase in the share of consumers intending to use three or more digital wallets in the coming years: from 18% in 2021 to 30% in 2022."

When McKinsey asked about the types of companies from which consumers say they'd want a digital wallet, most (54%) cited their banks, followed by smartphone makers/tech companies (28%), retailers (12%) and telecom providers (6%). "These survey results, however, don't seem to match consumers' descriptions of their actual behavior," McKinsey noted, citing the fact that "respondents are far likelier to say they use digital wallets from PayPal, Apple Pay and Google Pay (across both online and in-person channels) than to identify any other providers."

Types of companies from which consumers would want a digital wallet[1], % of respondents



Digital wallet value proposition for consumers[2], % of respondents



Source: McKinsey Digital Payments Survey, 2022 (n = 1,865)
[1]Q:From which of the following types of companies would you want a digital wallet? Select all that apply.
[2]Q:Thinking about the future benefits of digital payments, what types of features or capabilities would be most desirable to you? Percentages represent respondents who answered either that they were "very excited" or "extremely excited." Totals exceed 100% as multiple responses were given.

The continuing rise of ‘financial well-being’ messaging and marketing

The term “financial well-being” just keeps gaining, well, currency among economists, marketers and consumers.

In January 2015, the Consumer Financial Protection Bureau published its own definition of the term:

> *Our research suggests financial well-being can be defined as a state of being wherein you:*
>
> - *Have control over day-to-day, month-to-month finances;*
> - *Have the capacity to absorb a financial shock;*
> - *Are on track to meet your financial goals; and*
> - *Have the financial freedom to make the choices that allow you to enjoy life.*

Since then, financial institutions have increasingly embraced the term and related variations including “financial health” and “financial wellness.” In April 2021, for instance, Capital One released an explainer titled “What is Financial Well-being and Why is it Important?” and in January of this year, Vanguard published “Three small yet essential steps for financial wellness.”

But perhaps one of the most telling indicators of the rise of “financial well-being” as an industry talking point is

the fate of two new-ish brands that were essentially built on the concept: Credit Karma and Nerdwallet.

Credit Karma, which was founded in 2007, was acquired in December 2020 by Intuit for $8.1 billion. And Nerdwallet, which launched in 2009, went public in November 2021; as of this writing, the company has a market cap of $1.35 billion.

(Bankrate — which helped pioneer the concept of personal financial education when it launched a print product in 1975 titled Bank Rate Monitor — was acquired for $1.24 billion by digital marketing company Red Ventures in July 2017.)

Unfortunately for consumers, the data suggests that financial well-being itself has broadly been in the decline.

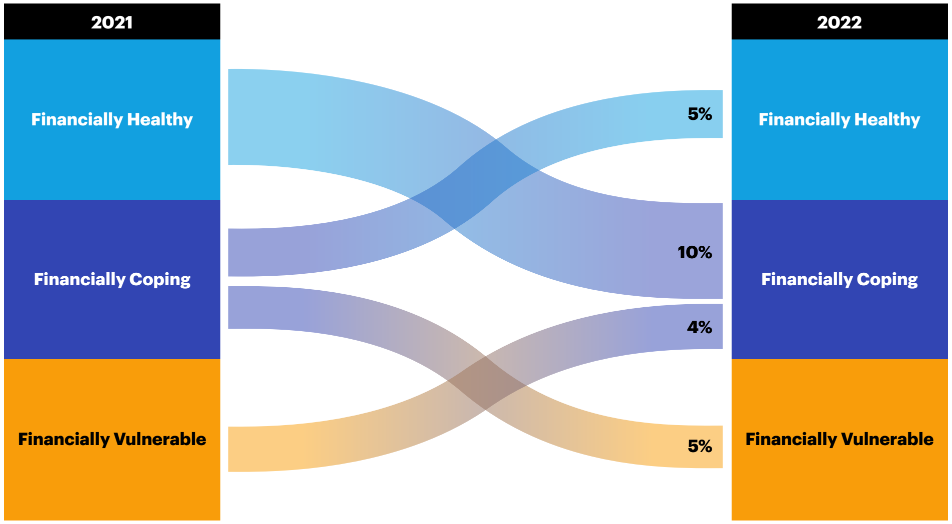
In September of last year, the Financial Health Network released its fifth-annual Financial Health Pulse U.S. Trends Report, which began, "Our 2022 U.S. Trends Report tells a far different story than prior years. Data from the nationally representative probability-based Pulse survey, fielded in April and May 2022, show that financial health declined for the first time in the project's five-year history."

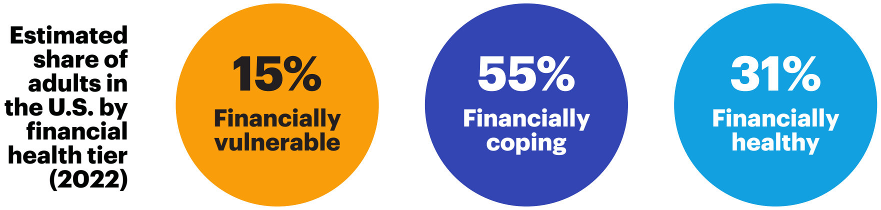
Among the report's key findings: "The percentage of people considered Financially Healthy decreased from 34% in 2021 to 31% in 2022," while the Financially Coping category "increased from 52% to 55% in the past year." Those shifts, the report explained, "were likely shaped by elevated inflation, the end of pandemic-era government interventions and higher personal spending than earlier in the pandemic."

As of this writing, we're about half a year away from the release of the 2023 Financial Health Pulse U.S. Trends Report — but the double whammy of entrenched inflation and ever-rising interest rates doesn't bode well for the next edition.

"There is a true opportunity for financial marketers to lean into financial wellness and demonstrate an authentic 'shoulder to lean on' with fatigued consumers," says Erin Slater, VP of Business Development at Quad. "We've seen brands successfully embrace financial wellness as a purpose-led program within the organization, driving a clear mission, vision and value to clients and employees alike."

Percentages of people with changes in financial health tier (2021–2022)





Source: Financial Health Pulse® 2022 U.S. Trends Report

How Quad can help

Quad works with literally thousands of marketers, including American Express, Citi, New York Life and U.S. Bank. We help brands reach the front door, discover more sustainable solutions, bring teams together and put your budget where it matters most. Most importantly, Quad sees your marketing as more than a journey — it's an experience. And our people can make it an extraordinary one.

To learn more, please reach out to Erin Slater at Quad: EESLATER@quad.com or 773-704-9135.

About Quad

Quad (NYSE: QUAD) is a global marketing experience company that helps brands reimagine their marketing to be more streamlined, impactful, flexible and frictionless. Quad's strategic priorities are powered by key competitive advantages that include integrated marketing platform excellence, innovation, and culture and social purpose. The company's integrated marketing platform is powered by a set of core disciplines including business strategy, insights and analytics, technology solutions, managed services, agency and studio solutions, media, print, in-store and packaging.

866.824.2869
info@quad.com
Quad.com