Consumer First: The Path Forward in Financial Services

TransUnion

Online and mobile interactions have changed, and so have consumers' expectations. The most innovative, tech-enabled businesses have delivered instant gratification to consumers, and consumers now demand it from every business. People are more likely to close an app that loads slowly, abandon a transaction if the website doesn't remember them, or seek out more helpful and educational companies.

These changes have, in part, ushered in a new era of financial services. In the relationship between the lender and the consumer, the power has shifted to the consumer. Consumers have information and choice at their fingertips, and will find companies who meet their needs and expectations.

We call this the Consumer First Era.

To be successful in this era, financial institutions can no longer focus solely on the path to profitability – they must also consider customer satisfaction. Customer experience leaders grow revenue faster, drive higher brand preference, and can charge more for the same products.[1] Financial institutions that excel in customer experience will win consumer loyalty.

NOW ENTERING A NEW PHASE IN FINANCIAL SERVICES

Today, most consumers have an abundance of choice online. With the ubiquity and ease of access through digital channels, consumers are no longer constrained by geography when selecting their lenders. **Consumers feel empowered to find and work with companies that meet their needs and understand their goals**. In prior eras, lenders maintained control and focused on profitability. Now, the balance of power has shifted to the consumer.

While consumers' expectations rise, the consumer wallet continues to fracture. In particular, consumers under the age of 25 are opening products with new lenders at a higher rate.[2] This signals that lenders aren't meeting their needs and they are exploring new options to form relationships online.

Another factor influencing the Consumer First Era is the establishment of online lenders. When FinTechs first entered the lending scene, they captured less than 1% of personal loan originations and their future was uncertain. By 2017, they were originating 36% of personal loan balances, a new milestone.[3] These lenders excel at delivering a seamless online experience, raising the stakes for traditional lenders.

Finally, advances in technology and the availability of information place consumers in the driver's seat. They have more control over purchasing decisions than ever, at a time when lenders have to work harder to capture loyalty and retain customers.

As the customer experience becomes a larger focal point, we conducted a study on loyalty dynamics and surveyed consumers about the drivers of loyalty to understand how their mindsets have changed. This report will outline how lenders can address their customer experience and evolve to compete in the Consumer First Era.

CONSUMER LOYALTY IS AT A CROSSROADS

All financial institutions want to gain consumer loyalty, especially as customer acquisition costs increase. Luckily for lenders, more than 4 in 10 consumers were more likely to open a new credit product from a company where they had an existing relationship.[4] As consumers have more accounts with a lender, they become more loyal — and ultimately, more profitable for the lender.

> "Even a minor **improvement to a brand's customer experience** quality can **add tens of millions of dollars** of revenue by reducing customer churn and increasing share of wallet." – Forrester, The US Banking Customer Experience Index, 2018

[1] The US Banking Customer Experience Index, 2018, Forrester
[2] TransUnion consumer credit database
[3] TransUnion consumer credit database
[4] 2018 TransUnion survey of 2,732 U.S. consumers about loyalty

Compared to consumers with just one product with a lender, consumers in the near prime and above risk tiers with four or more accounts were:

- → Nearly eight times more likely to open a mortgage
- → Four times more likely to open a bankcard
- → Twice as likely to open a new auto loan[5]

Most importantly, **consumers tend to perform better when they have more accounts with a lender**. For instance, card delinquency for consumers who had one product with a lender was 3.18%, compared to 2.66% for consumers with four or more accounts.[6]

ADAPT TO THE CONSUMER FIRST ERA OR HIT GROWTH ROADBLOCKS

In general, consumers under 25 have increasingly worked with new lenders to meet their needs. The youngest generation – Gen Z – was least likely to open a new credit product with a financial institution because they already had a product there.[7] In 2017, only 29% of this group originated at least one bankcard with their existing lender, compared to 34% in 2010.[8]

By 2019, Gen Z will comprise 32% of the global population and will be entering the credit market in droves.[9] **If lenders don't adapt** to Gen Z's preferences, **they risk missing significant opportunities to grow their revenue and customer base**.

To compete in the current market and deliver a positive customer experience, lenders must invest in strategies that:

- → **Deliver consistency** by being fast, seamless and safe
- → **Capture focus** with relevant and personalized experiences
- → **Establish trust** through transparency, access and education

DELIVER CONSISTENCY

Consistent and fast experiences across channels are a hallmark of the Consumer First Era. In today's constantly connected world, consumers call a cab or purchase paper towels in seconds with one click on their phone. They expect the same experience from their financial institution at a time when nearly all (95%) consumers manage their accounts on their financial institution's website or app.[10] For Millennial and Gen Z consumers, an easy-to-use mobile app was one of the most important drivers of loyalty.[11]

Financial institutions that deliver a strong mobile experience and make speedy approval decisions will excel in the Consumer First Era. But many lenders struggle to balance the customer experience while also fighting fraud.

While **65% of the overall population said fraud prevention was more important** than a year ago, 68% of Gen X consumers reported its

[5] TransUnion 2013 study on U.S. consumer loyalty. Near prime and above consumers have a VantageScore® 3.0 risk score of 601 or higher.
[6] TransUnion 2013 study of U.S. consumer loyalty
[7] Consumers born from 1995 and onward
[8] TransUnion consumer credit database
[9] Bloomberg analysis of United Nations data
[10] 2018 TransUnion survey of 2,732 U.S. consumers about loyalty
[11] 2018 TransUnion survey of 2,732 U.S. consumers about loyalty

importance.[12] It's clear that consumers value fraud prevention, but lenders need to adopt solutions that quickly pass "good" customers. With the right data and information, lenders can reduce manual reviews, improving the customer experience and reducing costs.

CAPTURE FOCUS

With a consistent experience in place, lenders need to grow their business by capturing consumers' interest. In a crowded market, substantial growth is coming from consumers obtaining products they didn't have in their wallets before. In 2010, the ratio of **new-to-product consumers to active-with-product consumers was 53% for personal loans, and reached 61% by 2017**.[13]

While many lenders cross-sell to their customers, they don't always tailor those cross-sell offers. But younger consumers increasingly expect and want personalized and relevant offers. While only 3 in 10 consumers said relevant offers for new credit products would grow their loyalty, this number was much higher for Gen Z consumers.[14] Nearly half of Gen Z said relevant offers were important, signaling a growing need for customization as Gen Z consumers enter the credit market.[15]

Without more credit history and actual payment amount data, it's challenging for lenders to identify consumers' preferences. Trended credit data, which provides up to 30 months of credit history, can help lenders identify consumers who are building higher card balances and offer a personal loan for debt consolidation. Or a lender can find consumers who have shifted their balance to another lenders' card, and offer new rewards or terms to re-engage the consumer.

According to a recent TransUnion survey, financial institutions that offered rewards were more appealing to Millennials. Six in 10 (64%) Millennials said rewards increase their loyalty, versus 58% of the overall population.[16] These insights can be the difference between a cross-sell opportunity and a lost customer.

ESTABLISH TRUST

Information in the hands of consumers leads to better business. As lenders enter the Consumer First Era, it's important to help consumers understand their credit scores. In fact, surveyed consumers ranked this as one of the top factors driving loyalty.

Looking at Gen Z, more than **6 in 10** (65%) **consumers felt more loyal to lenders that offered tools to help them see and understand their credit scores**.[17] For lenders, this is a win-win. They establish trust with the consumer by providing educational tools. At the same time, consumers understand how to improve their scores and may make smarter financial decisions. As a result, lenders may benefit from improvements in score migration as consumers become more educated.

Lenders can also establish trust by using trended and alternative credit data to score consumers. When more credit and alternative data is part of lending decisions, consumers may qualify for better rates on financial products and see improvements in their score. In fact, Gen Z consumers were more likely to report that it was important for their lenders to use alternative payment information, such as monthly gym membership payments, property records and deposit account information.[18] Lenders can prepare for this desire for better scoring by incorporating more data into their lending decisions now.

> "**Three in 10** younger consumers said relevant offers for new credit product would grow their loyalty. These consumers increasingly expect and want **personalized and relevant offers**."

[12] 2018 TransUnion survey of 2,732 U.S. consumers about loyalty
[13] TransUnion consumer credit database
[14] 2018 TransUnion survey of 2,732 U.S. consumers about loyalty
[15] 2018 TransUnion survey of 2,732 U.S. consumers about loyalty
[16] 2018 TransUnion survey of 2,732 U.S. consumers about loyalty
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[18] 2018 TransUnion survey of 2,732 U.S. consumers about loyalty

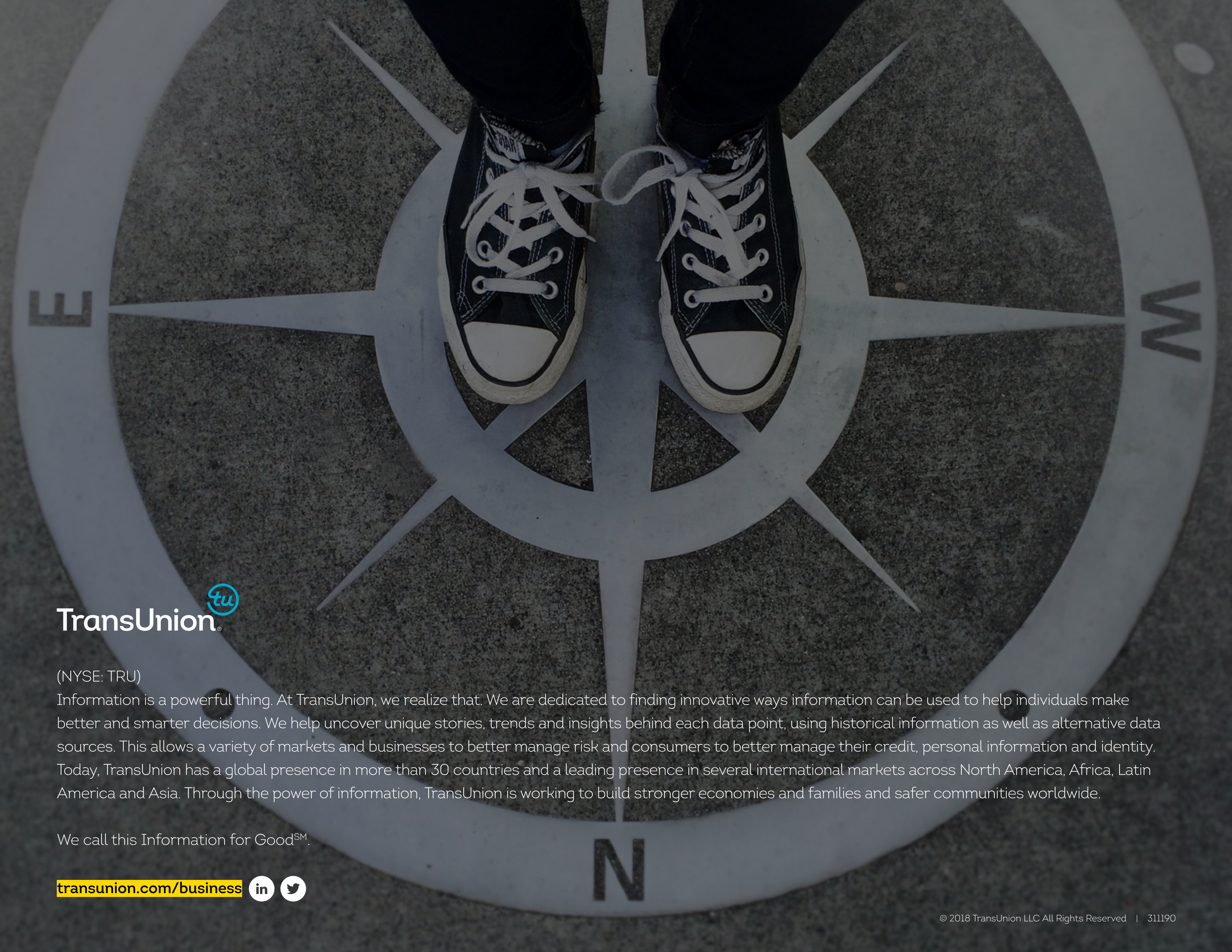
THE PATH FORWARD IN CONSUMER FIRST

In the new era of lending, Consumer First, financial institutions need to focus on the customer experience to succeed. As consumers have access to more information and choices, they maintain the balance of power in the relationship. Lenders can try to take back power, but they are fighting a losing battle. Instead, financial institutions should embrace consumers' power and work toward partnership.

Lenders should also consider how their experience stacks up to the most innovative online companies, not just other financial institutions. Those who invest in strategies that deliver consistency, capture focus and establish trust will **win the ultimate prize: customer loyalty**.

FROM STATUS QUO...	...TO CONSUMER FIRST
Only controlling for risk in underwriting	Offering ways to help consumers build financial health
Promoting products that are profitable to financial institutions and cross-selling as much as possible	Aligning products to specific consumer needs and preferences
Controlling for fraud by channel	Creating a seamless and safe experience across channels
Differentiating on price and terms	Delivering experiences that drive loyalty and empower consumers

To compete in the new era of lending, financial institutions need a partner that understands consumers' evolving needs and preferences. With solutions designed to help score more consumers, offer better rates, deliver seamless and safe fraud prevention and educate consumers on their credit scores, TransUnion thinks Consumer First. If you'd like more information on how TransUnion can help you evolve in the Consumer First Era, **contact your representative** or call **844-245-4071**.



TransUnion

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Information is a powerful thing. At TransUnion, we realize that. We are dedicated to finding innovative ways information can be used to help individuals make better and smarter decisions. We help uncover unique stories, trends and insights behind each data point, using historical information as well as alternative data sources. This allows a variety of markets and businesses to better manage risk and consumers to better manage their credit, personal information and identity. Today, TransUnion has a global presence in more than 30 countries and a leading presence in several international markets across North America, Africa, Latin America and Asia. Through the power of information, TransUnion is working to build stronger economies and families and safer communities worldwide.

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