Navigating The Economic Impact: 2023 Financial Institution Budgeting & Data Strategies

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The financial industry is feeling a collective case of whiplash as we start to consider budget planning and spend for next year.

After the country emerged from economic hibernation in 2021, COVID-weary consumers were eager to get out there and spend, spend, spend. Home mortgage rates were at rock bottom, so mortgage originations skyrocketed. People were taking out personal loans, home improvement loans and credit cards. But then, almost as suddenly, gas prices rose. Inflation came calling. Recession loomed. To combat it, the Feds raised interest rates multiple times. Mortgage interest rates went along for the ride. Homes became unaffordable overnight. Consumers were wary of all of that spending and pulled back. Uncertainty about the recession (are we in one or aren't we?), coupled with falling gas and home prices, have financial professionals wondering if things could turn on a dime again.

It's been a while since the industry has been on such a roller coaster, and that has even the most seasoned budgeters scratching their heads about how to plan for 2023.

What does it mean for financial institutions? How do they best navigate these uncertain economic seas, and help their account holders do the same?

In This eBook, We'll Delve Into:

- **Challenges current economic factors are posing for the financial industry.**
- **Strategies for financial institutions to employ now to deepen and grow account holder relationships.**
- **How using data is the key.**

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Challenges For Banks and Credit Unions

Because of the fluid economy, financial institutions are facing new challenges. Here are a few we're seeing.

Home and Personal Loans

ATTOM, a leading source of real estate data, released its report on Q1 2022, and the news was not good. Mortgage originations saw the biggest annual drop since 2014. Lenders issued $892.4 billion in mortgages in Q1 2022 — which looks like a very high number until you compare it to Q1 2021. Down 27%.

According to the report, the biggest contributor was a drop in refinances. Not surprising at all considering the rise in interest rates. Personal loans are also taking a hit due to the rise in interest rates.

But as Q4 2022 dawned, the tide seemed to be turning again. In mid-August 2022, the average 30-year fixed interest rate dropped to 4.99%, the first time it has been below 5% since April of this year.

- **2.71 million residential mortgages were originated in the U.S. in Q1. That's down 32% from Q1 2021.**
- **Lenders issued $892.4 billion in mortgages, down 27% YOY.**
- **30-year fixed-rate mortgage fell to 4.99% on Aug. 4, 2022.**

Source: The Mortgage Reports

Credit Cards

Given the spike in interest rates, it would stand to reason that people would be focusing on paying down their credit card debt. But the opposite has been true in 2022. NerdWallet's annual Consumer Credit Card Report reveals that card use is up, not down. Consumers using credit cards for essentials or to get by between paychecks is never a good sign. In the wake of this increased credit card reliance, financial institutions should look at their own in-house credit card offers to analyze whether their products meet consumer expectations.

- **62% of credit card holders have taken some "new action" with their cards as a result of inflation.**
- **78% of card holders have potentially costly knowledge gaps in how credit cards work, specifically about transferring balances.**
- **43% don't know the interest rates on all of their credit cards.**
- **32% have used a credit card for essential purchases.**
- **26% relied on credit cards to get by between paychecks.**

Source: NerdWallet

The Subscription Economy

Today, there's a subscription for everything. Netflix, HBO, Amazon Prime and other streaming services. Pet food and meds. Cosmetics. Meal kits. Music streaming. It's getting so popular that our economy is shifting around it, moving from the traditional business model of one-time payments to subscriptions that automatically recur monthly, quarterly or yearly.

The model is a win-win for businesses and consumers. For consumers, it's easy and convenient and the fixed expenses help them budget each month. For businesses, recurrent subscription payments create effortless revenue and customer loyalty. For financial institutions, those wins aren't always so clear.

Account holders need to pay for those subscriptions and they have a choice of payment vehicle when signing on the virtual dotted line. If they choose their debit or credit card issued by their financial institution, those transactions will provide increased interchange revenue for that institution. But, if they choose bill pay or ACH transactions, it may result in lost revenue for their financial institution.

- **A recent survey by PYMENTS and sticky.io found that the average U.S. consumer now has subscriptions with five retailers.**
- **Only 14% say they plan to reduce the number of subscriptions they have while 51% are planning to add more.**
- **Gartner tells us that by 2023, 75% of companies selling direct to consumers will offer subscription services.**
- **The subscription economy is estimated to grow to $1.5 trillion by 2025. It has been called a "once-in-a-century business transformation."**

For more information read our Subscription Economy white paper

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Buy Now Pay Later (BNPL)

The buy now pay later trend is booming. It's hard to purchase anything online today without being given the choice whether to BNPL. The allure: paying in installments over time like using a credit card, but without having to qualify or take a hit on your credit score. That's because BNPL generally doesn't do a hard pull on applicants' credit scores. However, just like with traditional credit cards, late payments will affect a consumer's credit score negatively, and on-time payments will reflect positively. Some interesting findings from a Lending Tree survey show that BNPL use is up...but so is the number of Americans who have made late payments on those accounts. However, BNPL users are becoming loyal to their BNPL provider (47% of users report loyalty), and that's eroding their loyalty to their financial institutions.

- **43% of Americans have used a BNPL service, up from 31% in 2021.**
- **70% admit to spending more than they would have if paying upfront.**
- **47% are loyal to a specific BNPL brand.**

Source: Lending Tree

Crypto Fluidity

Financial institutions have been riding the crypto roller coaster for months now. At the beginning of 2022, it seemed like crypto was the new cash. Now? The jury is out due to its volatility. But one thing is for certain. Consumers want education, advice and guidance on how, when and if to invest in this new medium. According to [Arizent Research](), the amount of financial institutions planning to offer cryptocurrency services by the end of 2022 has doubled.

- **44% of executives at financial institutions plan to offer cryptocurrency services to clients by the end of 2022.**
- **13% of wealth management advisors currently offer crypto services.**
- **60% expect their clients to increase crypto holdings in 2022.**
- **300 community banks plan to offer their account holders the opportunity to buy and sell Bitcoin on their mobile banking apps in 2022 in conjunction with fintechs.**

Source: Arizent

If financial institutions don't meet a consumer need, those consumers will go elsewhere. People are buying crypto for short- and long-term investments, and are considering crypto as part of their portfolio with traditional stocks.

Generational Trends

Simply stated, fintech is eroding relationships between younger account holders and their financial institutions. Period. Alkami Technology's 2022 Digital Banking Transformative Trends [Study]() found great differences in the ways the generations view their relationships with their financial institutions. For regional and community banks or credit unions, this is an urgent problem. The study found younger generations are "significantly more likely to state that a neobank, big tech company or fintech company is their primary financial provider (PFI)."

Why is that? Data from this study showed it had to do with their PFI's digital banking experience. Younger people are leaving financial institutions that don't have robust, fast, easy and convenient digital banking options. Do you know how many of your younger account holders are doing business with your competitors? Gen Z may be up for grabs, but if financial institutions do not have the right data tools and technology in place, they'll miss the mark.

- **39% of millennials are unsure if their primary financial institution will remain their PFI next year.**
- **25% of Gen Z are unsure if their primary financial institution will remain their PFI next year.**
- **48% of Gen Z and millennials said a bad digital experience at their PFI led them to open a new account with another.**
- **80% said a good website and app is their #1 requirement for choosing a new PFI.**

Source: Alkami and The Center for Generational Kinetics (CGK)

The DRIP Factor: Being Data Rich and Information Poor

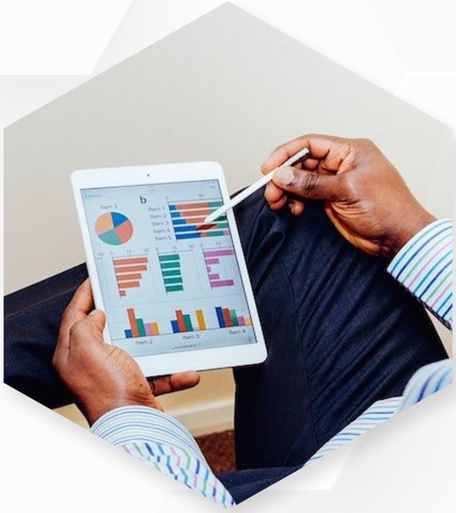
DRIP. It's an apt acronym for data rich, information poor. The opportunities missed by not using the unparalleled quantity of data available to financial institutions now is like a dripping faucet, going down the drain.

According to The Financial Brand, financial institutions aren't managing the data they have, nor are they extracting actionable insights, "leaving money and opportunities on the table." Where they fall short is in using data and AI to "power real-time decision-making throughout every aspect of the customer journey."

With the rapid growth of fintech eroding account holders' relationships with banks and credit unions, it's more vital than ever to mine the transaction data and make it actionable by having the intelligence to craft more personal, meaningful messaging to account holders, strengthening that relationship and loyalty...before they head off to your competitor for good.

- 2.5 quintillion bytes of data are generated each day.
- In the past two years alone, 90% of the data in the world was generated.
- Only 10% of banks and credit unions use data and AI frequently to drive marketing.*

Source: Bernard Marr & Co. / * The Financial Brand



Strategies For Financial Institutions Now: Data Is The Key

As we noted in our eBook, Data as Your Foundation, relying on data as the foundation of an institution's ecosystem is no longer optional. It's a must. Banks and credit unions have a wealth of insights within their account holder data, but must improve how data is put into action.

Most importantly, using data intelligently to build strategies combats the challenges financial institutions are dealing with today. Data is the great equalizer that delivers the holistic view of an account holder's financial journey, allowing a financial institution to execute a data-driven strategy, utilize predictive AI modeling, integrate data with email channel delivery, and leverage marketing technology.

Execute A Data-Driven Strategy

Financial institutions have to make a commitment to being a data-driven organization, with adoption across every department in the ecosystem. It has been said that data is the oil of the 21st century. And with 2.5 quintillion bytes of data created each day and the pace accelerating, financial institutions have to get on board and fast.

Some banks and credit unions try to engage in a data transformation initiative internally to manage their data at speed and scale, and analyze it for insights, but find out quickly they don't have the bandwidth to execute with internal resources. Most organizations need a fintech partner that understands data and how to connect that data to different systems, cleanse that data, and then categorize it all to make sure that it's actionable.

A critical part of transaction cleansing and analysis is a better understanding of account holder behaviors and spend patterns.

Insights from this process can deliver:

- Intelligence around product utilization, held-away accounts, merchant spend, and engagement with services like BNPL, crypto, and other channel behaviors including online and mobile banking usage.
- An understanding of "vital signs" within the account holder data to drive strategic decisions for targeting around product promotion, messaging relevance and financial wellness. These insights are the pulse of the account holder, and can include transactions such as unemployment deposits, percentage difference in average balance of a checking account, loan payments to a competing institution and more.
- The power to create marketing campaigns across multiple channels that deliver relevant messaging at the right time to the right audience.

A financial institution's commitment to setting data into action and being able to pivot with on-demand intelligence and ongoing data insights will ultimately determine their fate in an aggressive and disruptive marketplace. Especially now, in this uncertain economy, the path forward is to focus on leveraging first-party data to drive strategic decisions that can impact acquisition, share of wallet, loyalty and growth.

Utilize Predictive AI Modeling

In this rapidly changing economy, it is important to identify your account holders' wants and needs before they initiate outreach to you on their own. Everyday purchase behaviors are extremely predictive of an account holder's financial priorities and predictive modeling is an imperative tool that can empower your financial institution to be future-ready in this highly competitive industry. When you know what your account holders need, you can more easily craft messaging to offer it.

You don't have to be a large financial institution to reap the benefits of AI. Partnering with the right vendor can take a data strategy to the next level. Analyzing account holder transaction data and assigning insights to describe financial behaviors, spend patterns, and activity with competing institutions creates a holistic view of the account holder. These insights are the ideal input, catalyzing data science experts to build and deploy custom predictive models for any size bank or credit union with incredible speed and scale, to identify the behavior you want to predict. The most sophisticated models will deliver continuous optimization with on-demand access to model results while observing the data produced by account holders daily to determine impact of spend on future behaviors. Deployed alongside a full suite of insights, predictive modeling will equip your financial institution with the intelligence to power a myriad of multi-channel engagement options and automation, while driving informed decisions about your marketing spend and strategies.

Integrate Data with Email Channel Delivery

Many financial institutions struggle to leverage their account holder data for email use to accelerate revenue generation for both current account holders and acquisition campaigns. Adopting a data-leading approach to email means combining insights with email automation to deliver the highest level of targeting efficiency and relevant engagements. It's impact as a significant channel used by marketers will continue to rise, with [the future of email marketing] being fully intertwined with artificial intelligence and machine learning using high-quality specific data. FIs can get the most out of their email platform when it can align their marketing efforts with a full suite of media channels, while also utilizing their own account holder transaction data.

The on-demand access to the insights produced from this data allows banks and credit unions to:

- Quickly build ideal audiences for campaigns.
- Deliver the most effective and relevant messaging for important milestones such as digital onboarding.
- Build drip campaigns to support cross sell, financial wellness, and share of wallet.
- Execute competitive win-back engagements.

The unification of deep transaction data and analytics impacting these use cases, combined with the opportunity to measure success through end-to-end attribution reporting results, can be transformational for a financial institution while fast-tracking the return-on-investment.

Leverage Marketing Technology (Martech)

It's impossible to survive in today's market without it. Marketing technology is a set of software solutions used by marketing leaders to support mission-critical business objectives and drive innovation within their organizations. Understanding account holder behavior both within your institution and with your competition requires tools that can combine all sources of data into one platform.

Driving analytics, engagement, attribution, reporting — these have to sit alongside the traditional technology stack and work as one to provide a full view of an institution's ecosystem. Martech, fueled by data insights, also aligns marketing and sales to focus on demand generation, pipeline and the right campaign orchestration.

A martech mindset strategy is key to transitioning digital banking and other channels to be revenue producers.

Martech Data Strategy Execution List:

- ☐ **Syndicate** - Identify and deploy only the data assets meaningful to the modeling of account holder insights.
- ☐ **Evaluate** - Analyze the data, cleanse it and distill it for speed and scale, while using the insights for personalization.
- ☐ **Activate** - Integrate targeted audiences to drive messaging and content decisions in concert (omni-channel).
- ☐ **Measure** - Review attribution of campaign success and failure data as this is critical for continuous improvement of models and content decisions.
- ☐ **Automate** - Root each step in automation to maximize efficiency and consistency.

Bottom Line:

Execute On Data Strategies To Grow and Steal Share Of Wallet

A financial institution can identify and accurately measure for share of wallet through product utilization and competitive indicators found within transaction data. Analysis of this data results in the knowledge needed to feed opportunities for acquisition campaigns, product engagement, product innovation, financial wellness and account holder satisfaction that matches consumer expectations.

To Be Future-Ready, Budget Now To:

- ☐ **Execute a Data-Driven Strategy**
- ☐ **Utilize Predictive AI Modeling**
- ☐ **Integrate Data with Email Channel Delivery**
- ☐ **Leverage Marketing Technology**

At Segmint, we help financial institutions of all sizes cleanse, contextualize, and activate their data with Merchant Payment Cleansing, Customer Insights, Marketing Automation, and AI Modeling. Powered by data scientists and artificial intelligence, our innovative product line offers a variety of ways to optimally use your data to deepen your account holder relationships and grow your business.

Ready to learn more?

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