NextWave of Consumer Financial Services

July 2023

Building a better working world

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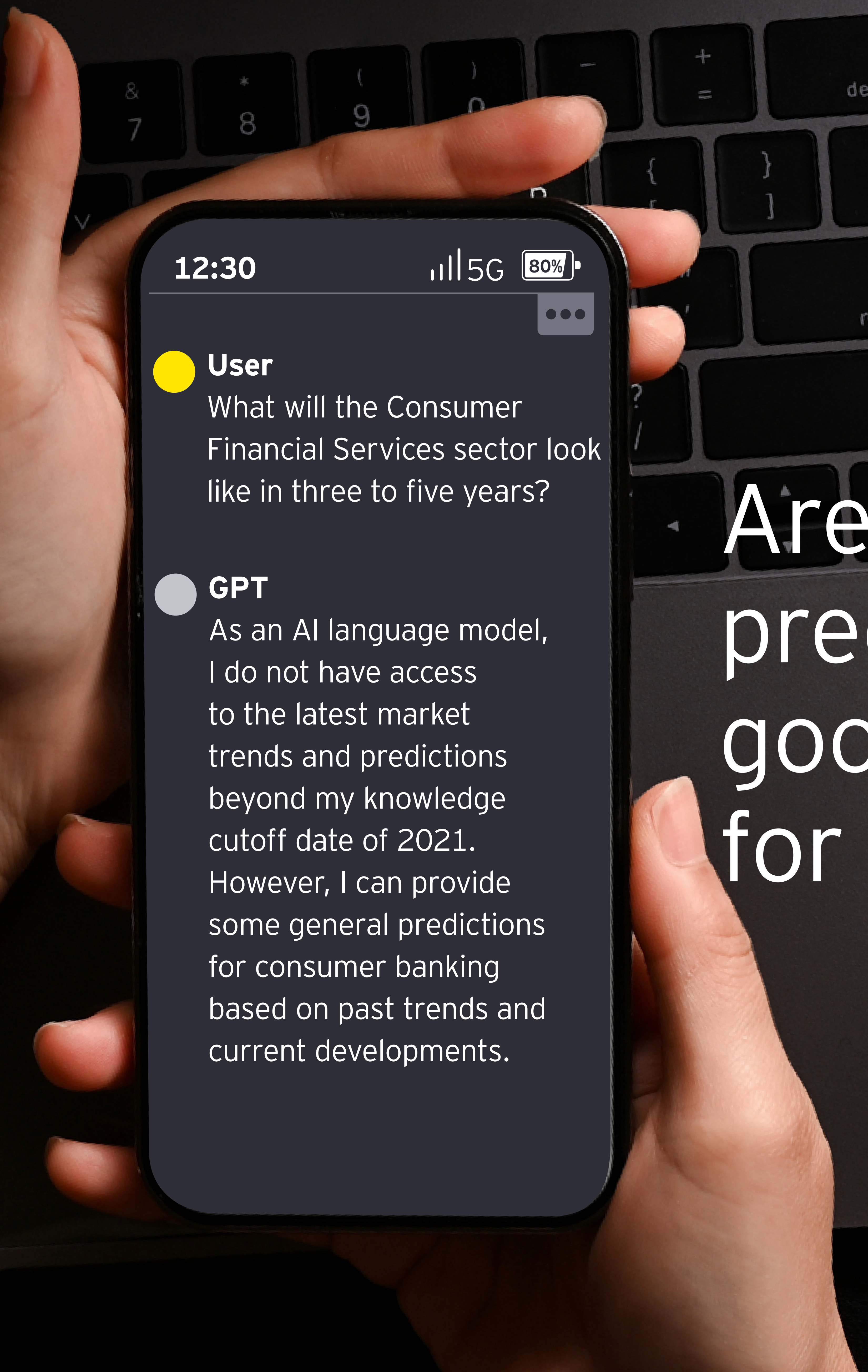


Are "general predictions" good enough for your bank?

Foreword: the consumer insight imperative

Envisioning the future of consumer banking is extremely difficult. For traditional banks, "general predictions" do not provide enough insight to keep up with (much less stay ahead of) evolving customer needs, industry trends and market dynamics.

Despite macroeconomic uncertainty, geopolitical volatility and stubbornly high inflation, consumers push forward relentlessly, always looking for more value and ready to try new tools and technology to address unmet needs. When new experiences and solutions from financial innovators can gain traction so quickly, incumbents are challenged to meet rising expectations and to satisfy continually shifting needs and preferences.

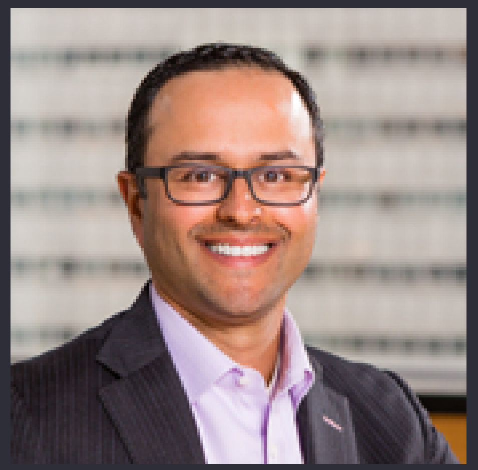
Understanding today's market shifts is hard enough. It is even more difficult to diagnose what it will take for banks to thrive in the turbulent markets that are taking shape. Our proprietary NextWave market intelligence platform brings thoughtfully curated consumer insights and benchmarking from more than 50,000 global consumers and more than 100 leading global banking, wealth management and FinTech brands.

Our platform provides predictive intelligence on key market innovations, shifts in consumer preference, levels of brand trust and key drivers for monetizing value ecosystems. Specifically, this year's report is based on studies we conducted in the fall of 2022 and spring of 2023, consisting of:

- A census-weighted survey of 13,000 US consumers across wealth tiers and age groups
- A follow-up survey of 1,000 consumers following the March 2023 banking crisis
- A survey of 415 C-suite executives across the banking, wealth management and FinTech industries
- Industry benchmarking that maps value creation differentiators between 50 leading US consumer finance brands
- Deep economic analysis to identify strategic risks and opportunities facing banks

The following pages outline what you can expect in the industry's next wave, including insights about the evolving competitive landscape, and they identify the actions that firms need to take to thrive in the next three to five years. We have also developed an "igniting growth" framework, customer value blueprints and execution models to help clients accelerate on the path to customer value leadership.

We hope you find our perspective to be helpful. We would be delighted to hear your observations, discuss the unique issues and opportunities facing your institution, and understand what sorts of questions you are looking to answer relative to your company's transformation journey.



Nikhil Lele
EY Global and Americas Consumer Banking Leader
Ernst & Young LLP

Multiple headwinds complicating banks' long-term 'thrivability'

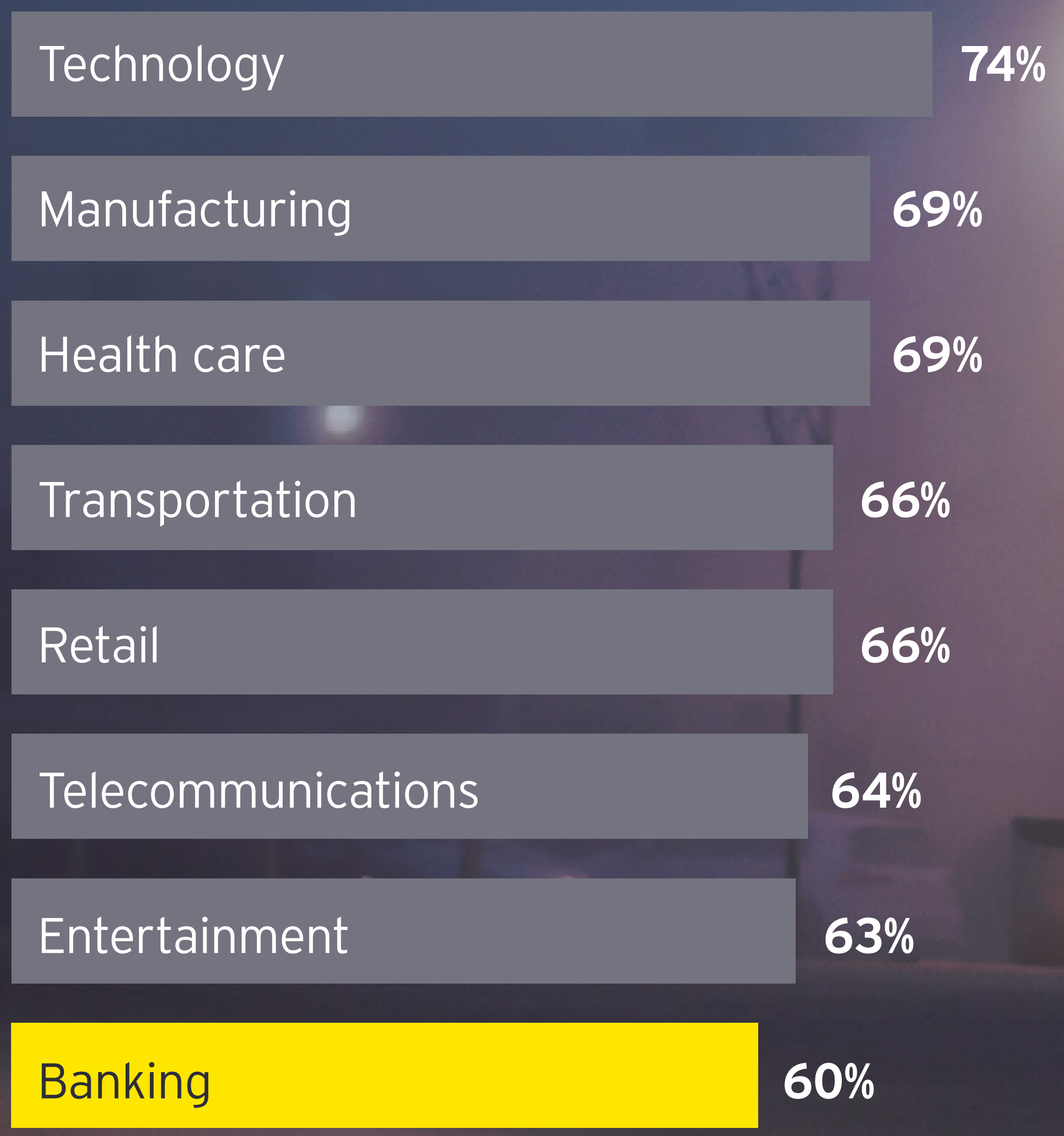
Falling fee income, stagnant mortgage originations, volatile deposit volumes, lower trust, shifting consumer needs, increased likelihood to switch and new competition

These are the trends that are now causing weaker financial performance across the banking sector and calling into question traditional business models.

The trust deficit in banking

Since the financial crisis of 2008, the financial services industry has been among the least trusted sectors in the US. EY research highlights that the trust deficit results from many banking relationships being built more on apathy than on trust, which may lead some banks to mistake inertia for loyalty. That's a risk when new players can break through with wellness-centric offerings that give consumers more control.

Consumers are less trusting of banks than other industries



Source: Edelman Trust Barometer 2022 – Global Report, Trust in Financial Services Sector.

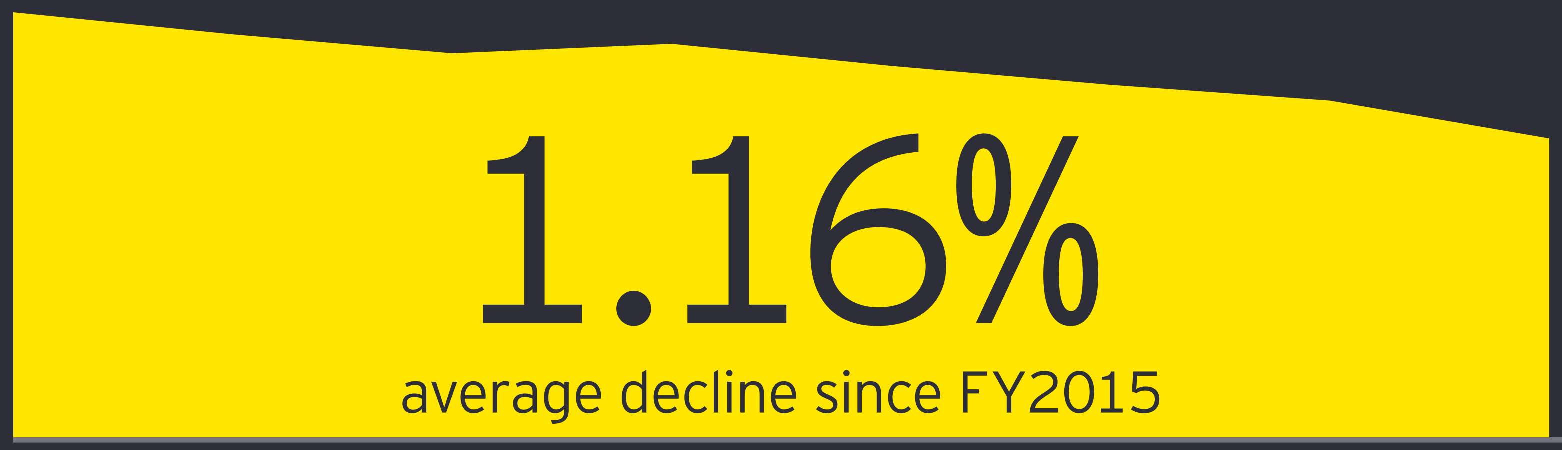
From macroeconomic headwinds to a perfect storm

The rapid loss of deposits, combined with investors adding $135b to global money-market funds in early 2023, shows that consumers have awoken from a 10-year period of general banking complacency.

More intense competition for deposits, unrealized losses from investment portfolios, increasing liquidity concerns and exposure to high-risk sectors, such as commercial real estate, are pressuring bank balance sheets and bottom-line performance. And just as consumers are increasingly sensitive to fees, regulators are increasingly skeptical of fees that are not in consumers' best interest.

The bottom line: Existing business models must evolve if results are to improve.

US banks' fee income as a percentage of average assets[1]



Fee income has fallen steadily and will be hard to replace.

US banks' mortgage origination volumes, 2016-2023

Increasing interest rates and greater consumer caution are hitting banks' bottom lines.

[1]Includes income from fiduciary activities, service charges, servicing and gain on loans, and other non-interest income. Does not include trading and investment banking incomes.
Source: FDIC, Mortgage Bankers Association; US Census Bureau; National Association of Realtors; EY-Parthenon macroeconomic model; New Fed survey of Consumer expectation, University of Michigan survey of consumers, EY analysis.

Consumer readiness to switch

Our survey of 1,000 consumers conducted just after the March 2023 bank failures demonstrates just how ready and willing consumers are to switch banks – for both deposits and investments. Switching has never been easier or more frictionless, thanks to digital technology and customer experience innovations. Smaller regional and community banks face the highest risk of deposit attrition, according to Federal Reserve data.

48% of consumers will consider switching banks

73% would consider switching in the next 12 months

64% are willing to switch deposit relationships

30% are willing to switch investment relationships

Top reasons consumers move their money:

1. Reduced risks by splitting money between accounts
2. Better rates and benefits
3. Solutions that better meet their needs and expectations
4. Lack of personalized experience and solutions
5. Products/services not meeting current financial needs

Fragmenting consumer attention spans

Banks are increasingly competing for the economy's scarcest resource – consumer attention – both within the flow of everyday life and at big moments.

Continuously connected consumers want access to everything, all the time, from any device – plus the ability to jump between channels via superfluid experiences. The more financial services become deeply embedded in commerce, lifestyle, gaming and social media, the greater the risk that banking brands will become invisible. This attention gap will only widen as projected digital interactions grow exponentially in the coming years.

There's no doubt that digital banking will continue to expand, thanks to the portability of consumer identity and more options for digital payments and seamless, in-the-moment financing. Banks have to claim their place at the center of the digitally driven attention economy by meeting consumers everywhere they go and finding ways to serve them seamlessly.

Continuous and ubiquitous connectivity

19.1b

estimated number of internet of things-connected devices worldwide by 2025

4,900

estimated digital transactions for consumers by 2025, a 16x increase since 2010

Source: Statista/Juniper Research; EY Analysis.

Banks are competing for the economy's scarcest resource: consumer attention

1.3%

is the average time per month that a consumer spends on banking and financial services activities

Source: Bureau of Labor Statistics.

The NextWave of Consumer Financial Services

For all the challenges they face, banks can take action to boost performance and engage more deeply with consumers. Tomorrow's winners will meet consumers where they are today and keep moving forward to accompany consumers throughout their financial lives. And because personal finances and lifestyles are so profoundly interwoven, consumer needs will only get more complex as change accelerates and the impact of technology is amplified.

Where the consumer financial services market is headed

As banking is disaggregated and unbundled by multiple players and new competitors, consumers are racing toward personalized value ecosystems. "Convenience bundles" are giving way to curated, connected ecosystems, with customers at the center. The end game is what we call "value constellations," which greatly expand the opportunities for banks to grow consumer trust and strengthen their market position.

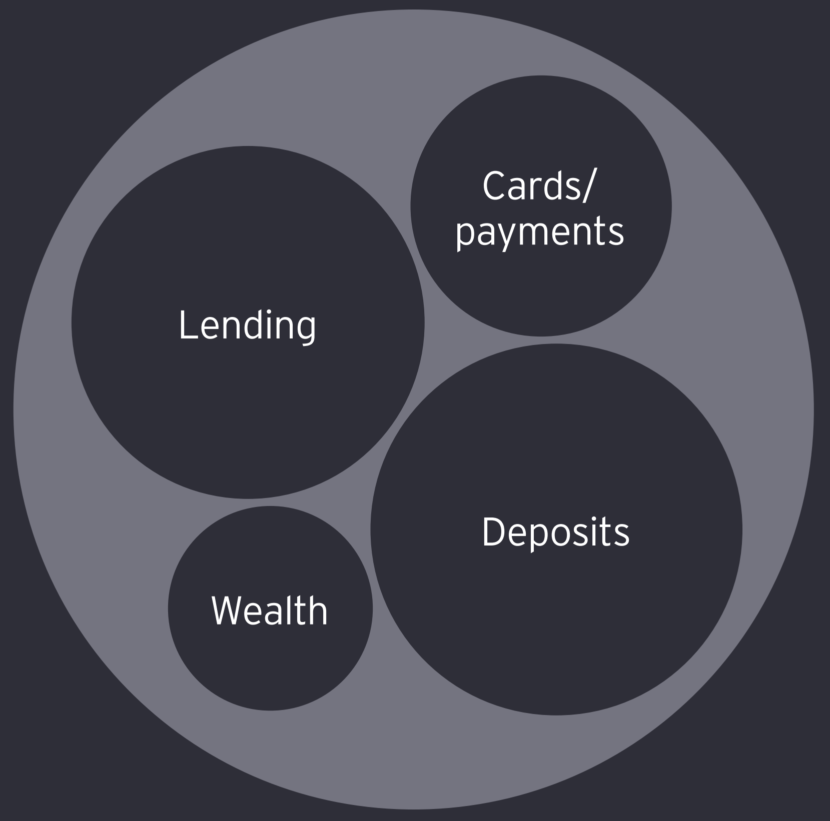
Value paradigm

BREAKTHROUGH
value creation

Banks today

Convenience bundles

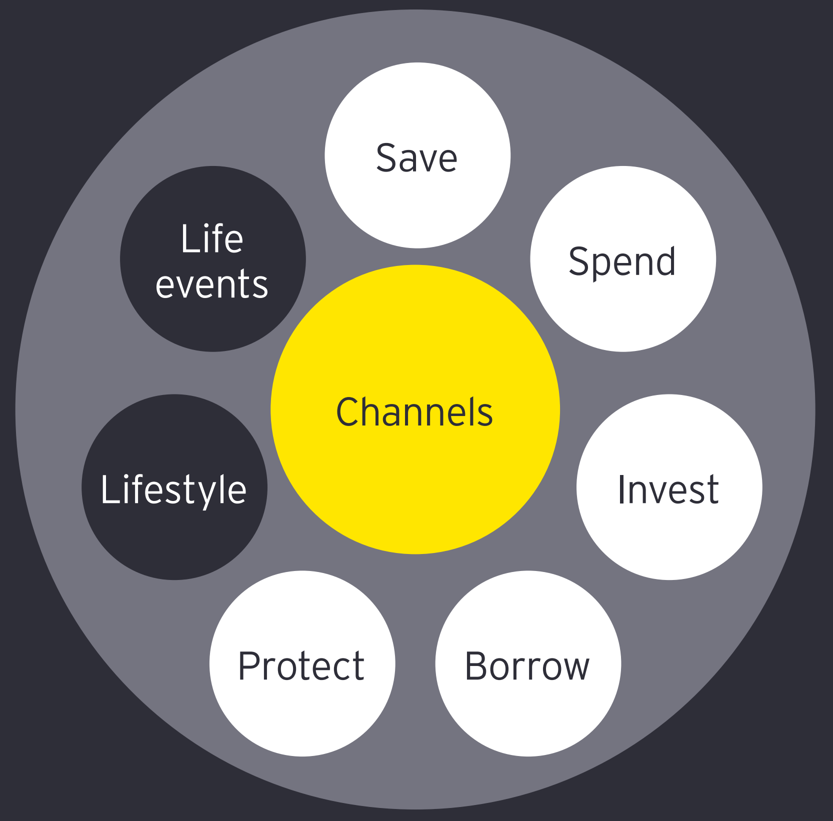
For customers to do most banking needs in one place



FinTechs today

Curated solutions

For customers to self-serve all banking needs in one place



Consumers today

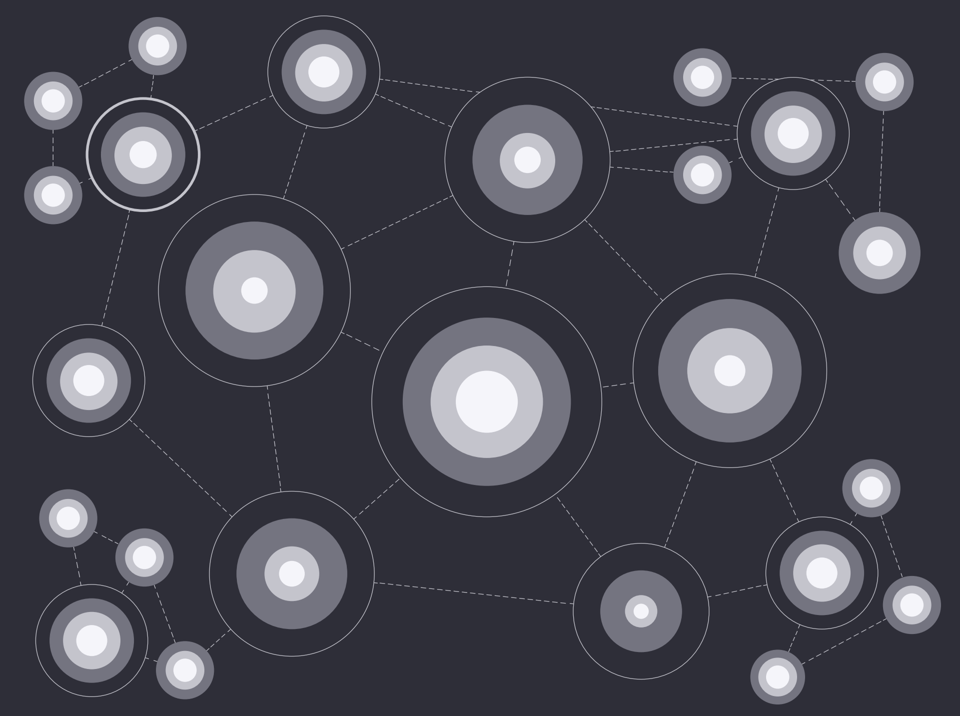
Needs-based ecosystems

Dynamic solutions anchored by life goals and financial health priorities

Digital beyond

Value constellations

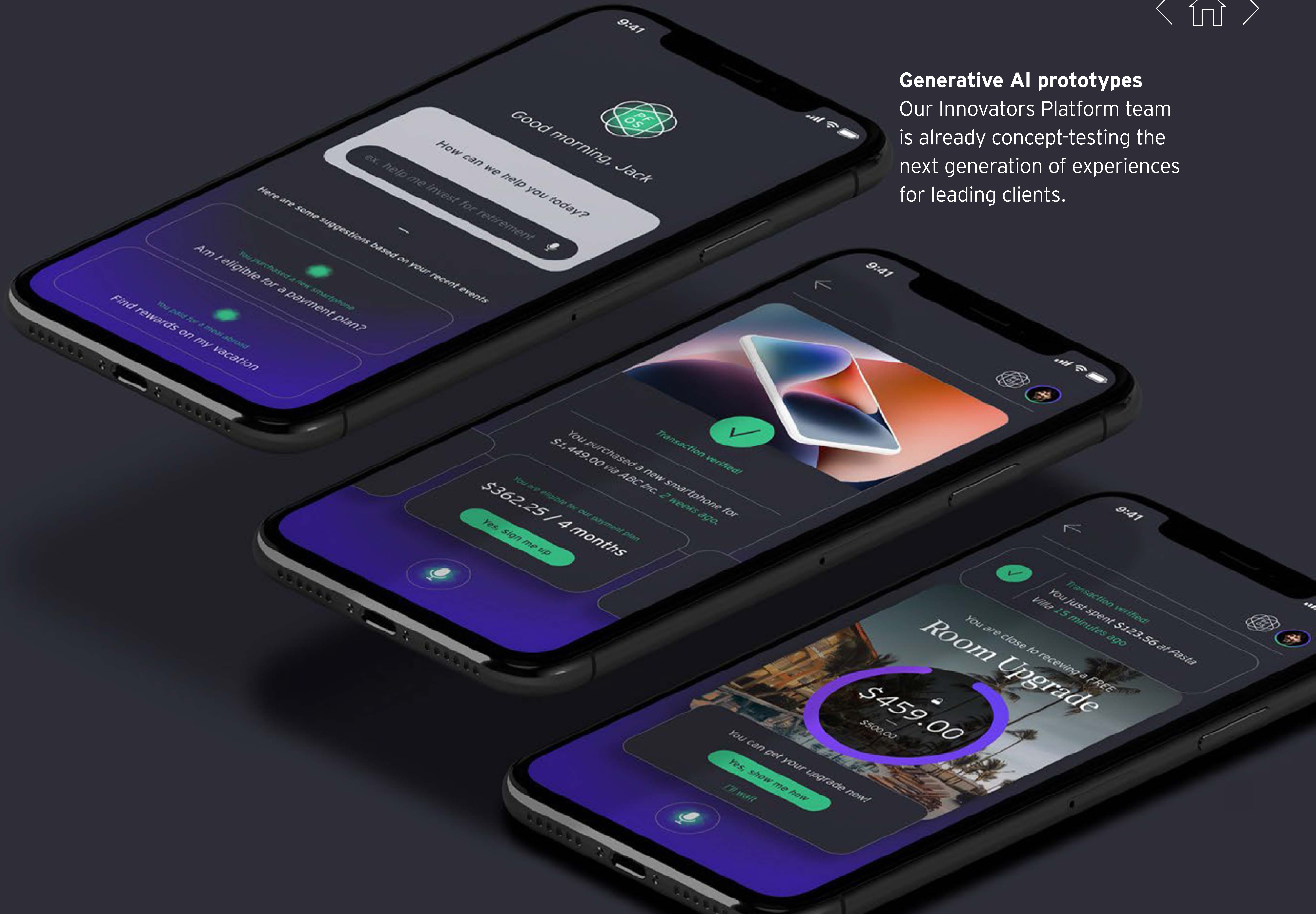
The connection of diverse consumer ecosystems that enable increasingly networked journeys across different points of value



The centrality of the personal financial operating system

Central to the evolution of value constellations is a personal financial operating system (PFOS). These artificial intelligence (AI) -driven platforms will be the central foundation for guiding consumers' digital journeys and connecting them to a dynamic range of services to help them improve their financial lives through continuous, relevant interactions and engagement. Advances in generative AI, cloud-native platform models and embedded finance ecosystems have made PFOS a necessary north star for banks that seek consumer primacy.

A PFOS is not just another financial app. Indeed, it's more than a "super app." Ultimately, we believe that the PFOS will form the heart of the future business models for the most successful financial services institutions and become as ubiquitous as the platforms that consumers use for e-commerce, entertainment and health care.



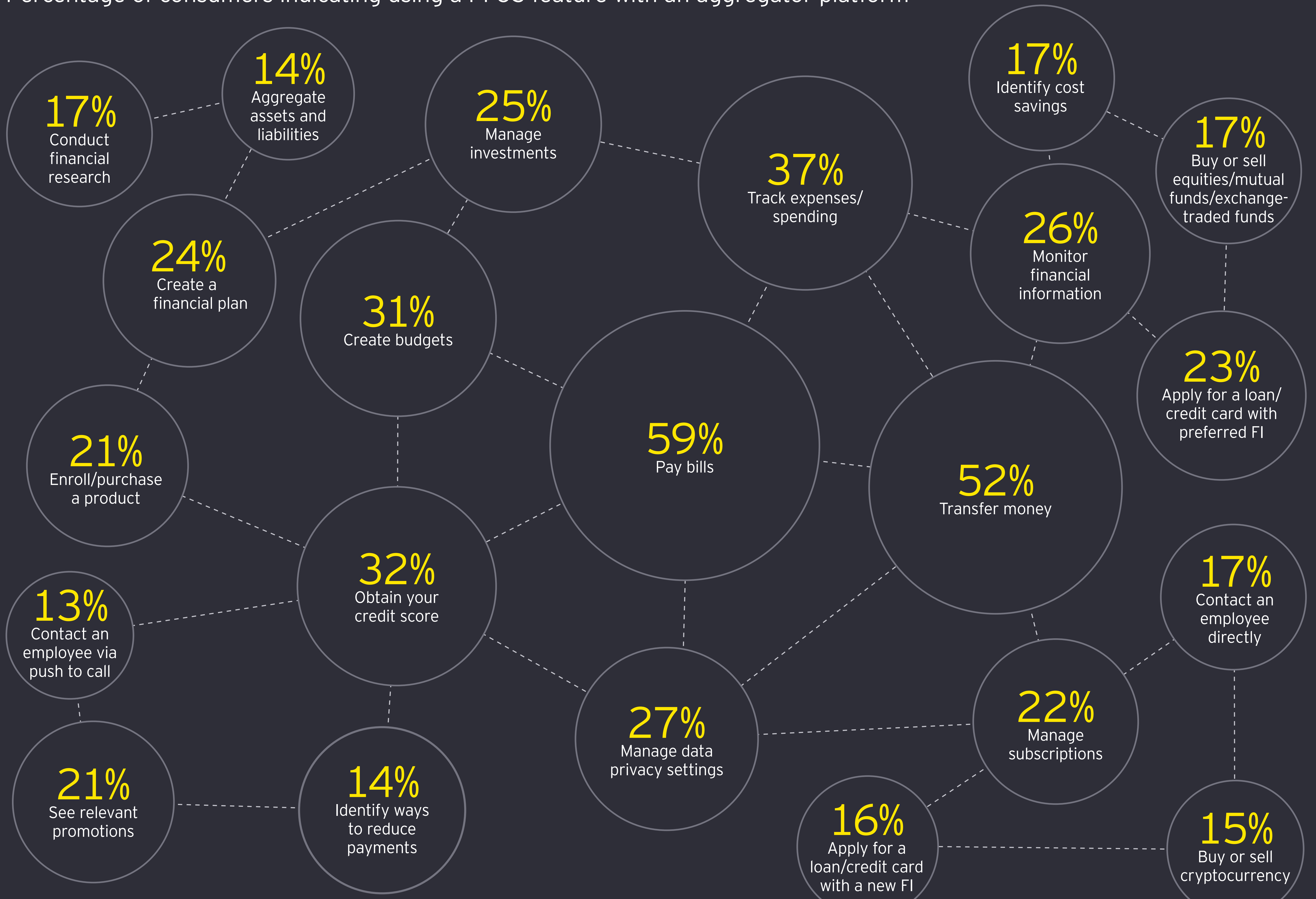
Generative AI prototypes
Our Innovators Platform team is already concept-testing the next generation of experiences for leading clients.

PFOS platform features and capabilities that consumers use

Our latest research highlights the key features driving adoption of PFOS platforms. Simple account aggregation and consolidated dashboards will not be enough to drive relevance, satisfaction or loyalty going forward. Banks must adopt AI more broadly to deliver simplicity, convenience and value via concierge-like connectivity, and personalized assistance to all consumers.

Consumers are adopting PFOS features in a more fragmented environment today

Percentage of consumers indicating using a PFOS feature with an aggregator platform



Source: EY NextWave Consumer Financial Services Research - March 2023.

Mastering primacy and trust to create customer value

Based on five years of continuous market research into how consumers make decisions, we can identify the two primary factors that produce superior financial performance via customer value leadership: relationship primacy and the trust premium.

Companies whose customers choose them for their primary financial relationships (PFRs) and companies that earn loyalty and advocacy based on trust are more likely to increase customer acquisition, product relationship depth and profitable growth.

Relationship primacy

Importance of the financial relationship in terms of tenure, value and depth

Primary levers to drive customer value leadership

Trust premium

C (Credibility) + R (Reliability) + I (Intimacy) + B (Best Interest)[1]

[1] Derived from ©2000 "The Trusted Advisor" by David Maister.

The power of primacy

Trust is now the third most important factor for consumers choosing a PFR. The rapid reset around primacy reflects a flight to credibility and quality, with consumers seeking security through size. As such, PFRs carry significant weight in consumer decision-making, with more consumers willing to deepen financial relationships with their PFR vs. other institutions.

With six FinTechs now in the top 25 for all PFR brands in the US (up from zero in 2019), we know that large FinTechs have gained mainstream acceptance status with significant numbers of US consumers, largely by serving as a primary interaction hub.

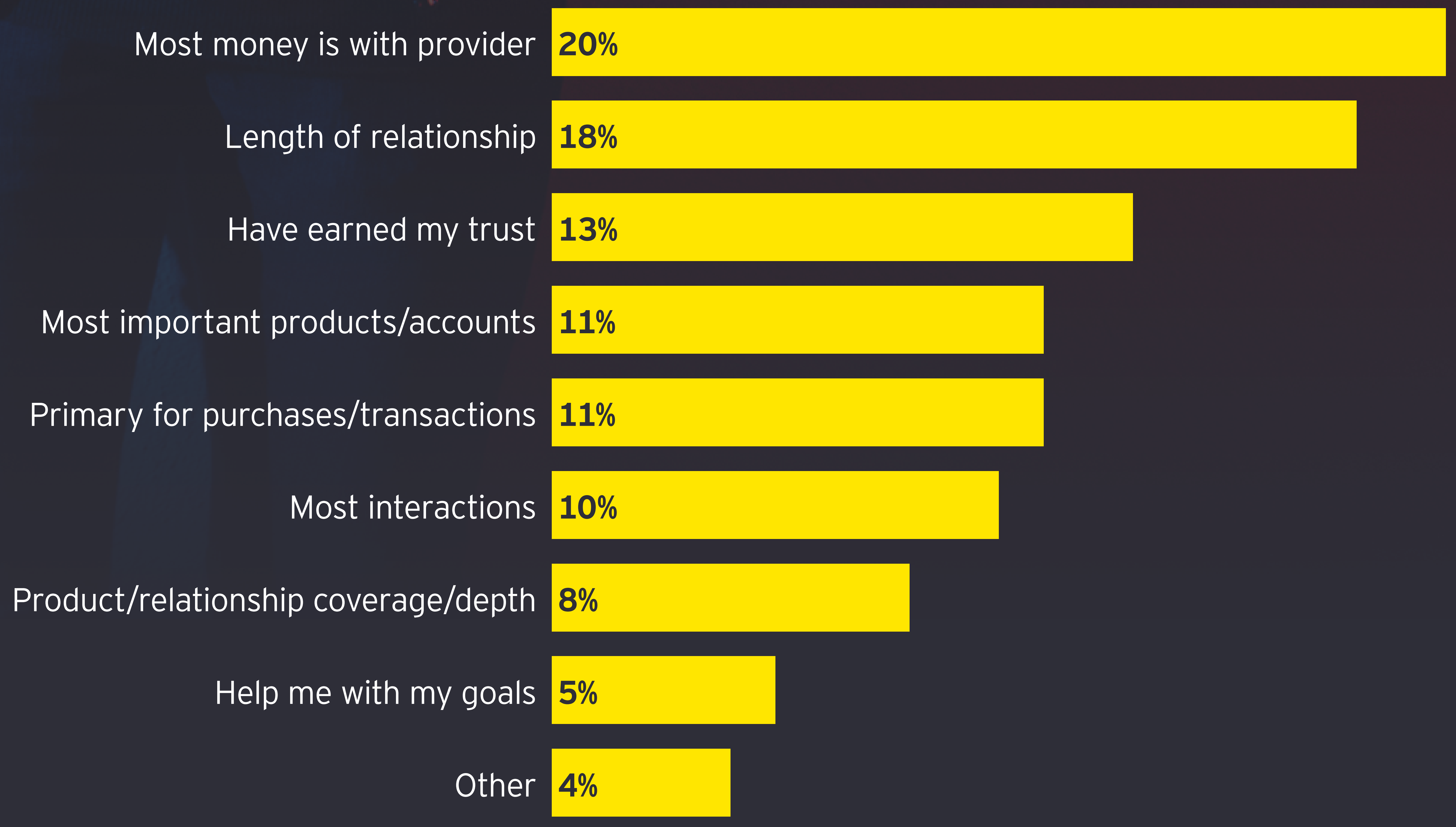
The primary factors for consumers choosing PFRs have not changed materially in five years, indicating that PFR is a long-game strategy that can't be won with a great product or slick digital experience alone. Earning consumer mindshare takes focus and is essential to remaining relevant over time.

We have also seen significant shifts in how consumers designate PFRs from year to year, and these can be seen as strong predictors for future competitive strategy shifts. From spring 2021 to fall 2022, there has been a significant shift in PFR designations across age groups and wealth tiers. Overall, in 2022, traditional large bank and wealth management brands increased PFR capture by 8% year over year. FinTechs, insurance companies and smaller banks saw their share of PFR designation fall by the same amount.

24% of consumers are more likely to deepen their PFRs

Primary PFR attribution

Percentage of consumers naming factor as top for PFR designation

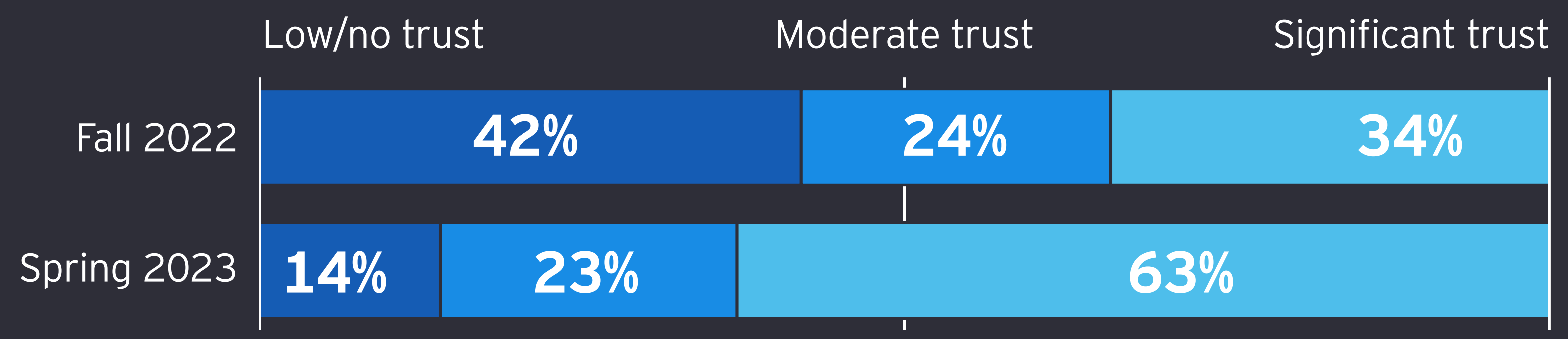


Source: EY NextWave Consumer Financial Services Research - March 2023.

Of particular note: GenZ shifted away from FinTechs toward more traditional financial brands in banking and wealth management. Millennials shifted away from larger banks and FinTechs toward smaller, local banks. Interestingly, Gen X shifted away from larger brands toward FinTechs. Not surprisingly, there was a marked shift to name brands in banking and wealth management among older and wealthier consumers.

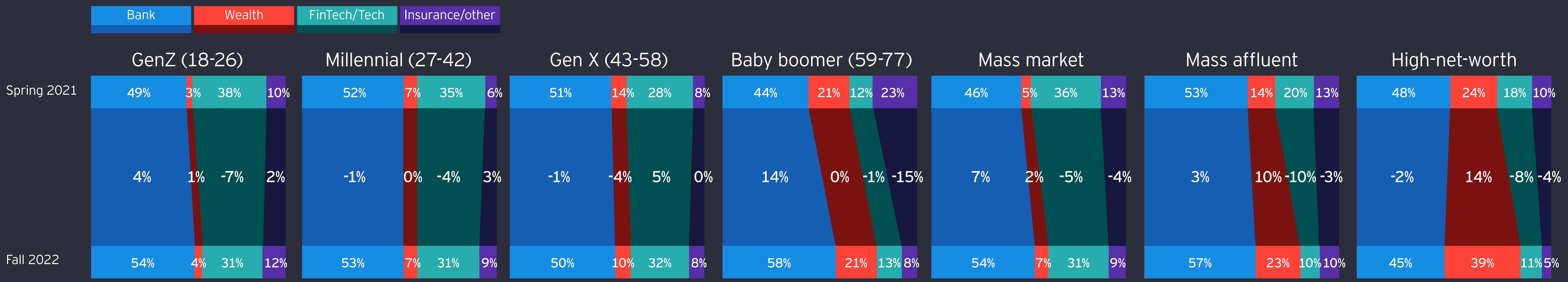
It is also important to understand how PFR designation links to financial wellbeing in the minds of consumers. The trust consumers have in their PFR to help them stay financially secure changed dramatically from fall 2022 to spring 2023 following the banking crisis. Previously, consumers had general ambivalence about how much their PFRs helped with financial security. However, post-crisis, consumers place greater weight on their PFRs' commitment and ability to help them stay financially secure.

How much trust do you have that your financial institution(s) will help you stay financially secure?



The relationship between primacy and trust matters more than in the past because the drivers of consumer financial decisions have shifted in meaningful ways.

Shift in primary relationships: flight to credibility



Note: numbers may not add to 100% exactly due to decimal rounding.
Source: EY NextWave Consumer Financial Services Research - March 2023.

Unlocking the trust premium

To achieve trust that goes beyond transactions, banks must establish credibility, reliability and intimacy in demonstrating their commitment to consumers' best interests. Our research identifies the most powerful trust drivers and detractors, and how banks fare against competitors. These insights show how brands can earn the right to help customers with complex, intertwined financial needs and to deepen and expand customer relationships – what we calculate as the "trust premium."

Trust drivers are interdependent, but their individual importance will vary in different types of markets and business cycles. For instance, credibility and best interest are more important when consumers feel stressed by macroeconomic conditions, as many have in the last year. Clearly, people want to know that their bank is there for them when hardships occur and would take steps (e.g., waiving fees) to help customers facing dire circumstances.

Higher trust pays off in increased loyalty and advocacy

2x The consumer loyalty and advocacy advantage gained by institutions with higher trust premium scores when compared to those with lower trust premium scores

	Top trust drivers	Top trust detractors
Credibility	▸ Strong reputation in financial services ▸ Brand signifying premium value ▸ Expectation of greater functional benefits	▸ Inaccurate or misleading information from brand
Reliability	▸ Great technology/digital experience ▸ Regulatory compliance and protected personal data	▸ Known security breaches ▸ Negative legal ruling against brand
Intimacy	▸ Exceptional customer service ▸ Personalized service model ▸ Ability to anticipate important life events	▸ Loss of human touch ▸ Generic and unhelpful service
Best interest	▸ Alignment with personal values ▸ Customer-centric, prioritizing needs over their products and services ▸ Protection from financial adversity, even when it is not always profitable for the firm	▸ Constantly feeling "nickel and dimed" ▸ Makes money through fees and interest when financial health is declining ▸ Personal values not aligned ▸ Does not support customers in crisis

Source: EY NextWave Consumer Financial Services Research – March 2023.

Primacy also continues to be a major consideration, but best interest has emerged as a key driver of trust, in addition to credibility and reliability. In the wake of the March 2023 banking crisis, consumers willing to stay with their financial providers emphasize best interest. Wealth firms saw the highest increase in trust driven by best interest, followed by banks. FinTechs gained the least due to the volatility caused by recent market events.

Interestingly, younger consumers are placing more value on credibility and reliability in these uncertain times. This may seem counterintuitive, given that they are thought to be the group that is most inclined to work with FinTechs and new digital players. In fact, 72% of Gen Z consumers in our research said that they would consider switching to providers offering more regulatory protections (e.g., FDIC backing), a solid portfolio of products and caring services in the next 12 months.

These results signal a rare opportunity to engage a cohort that has historically shunned traditional institutions. The key is to build on a foundation of safety and soundness and create intimacy via smart, personalized experiences.

Top 10 drivers of trust

Percentage of consumers ranking driver in top 3 most important

Is a company I trust to do the right thing (Best interest)	50%
It has all the regulatory protections, like FDIC insurance, to keep me safe (Reliability)	42%
Strong reputation in financial services (Credibility)	40%
Known for exceptional customer service (Intimacy)	40%
Has great technology/digital experience (Reliability)	35%
Helps people like me achieve their short- and long-term financial goals (Intimacy)	30%
Helps people achieve financial security and wellbeing (Best interest)	29%
Known for better products and services (Credibility)	26%
Known for their personalized/individualized service model (Intimacy)	24%
Brand signifying exclusivity and premium value (Credibility)	18%

Source: EY NextWave Consumer Financial Services Research - March 2023.

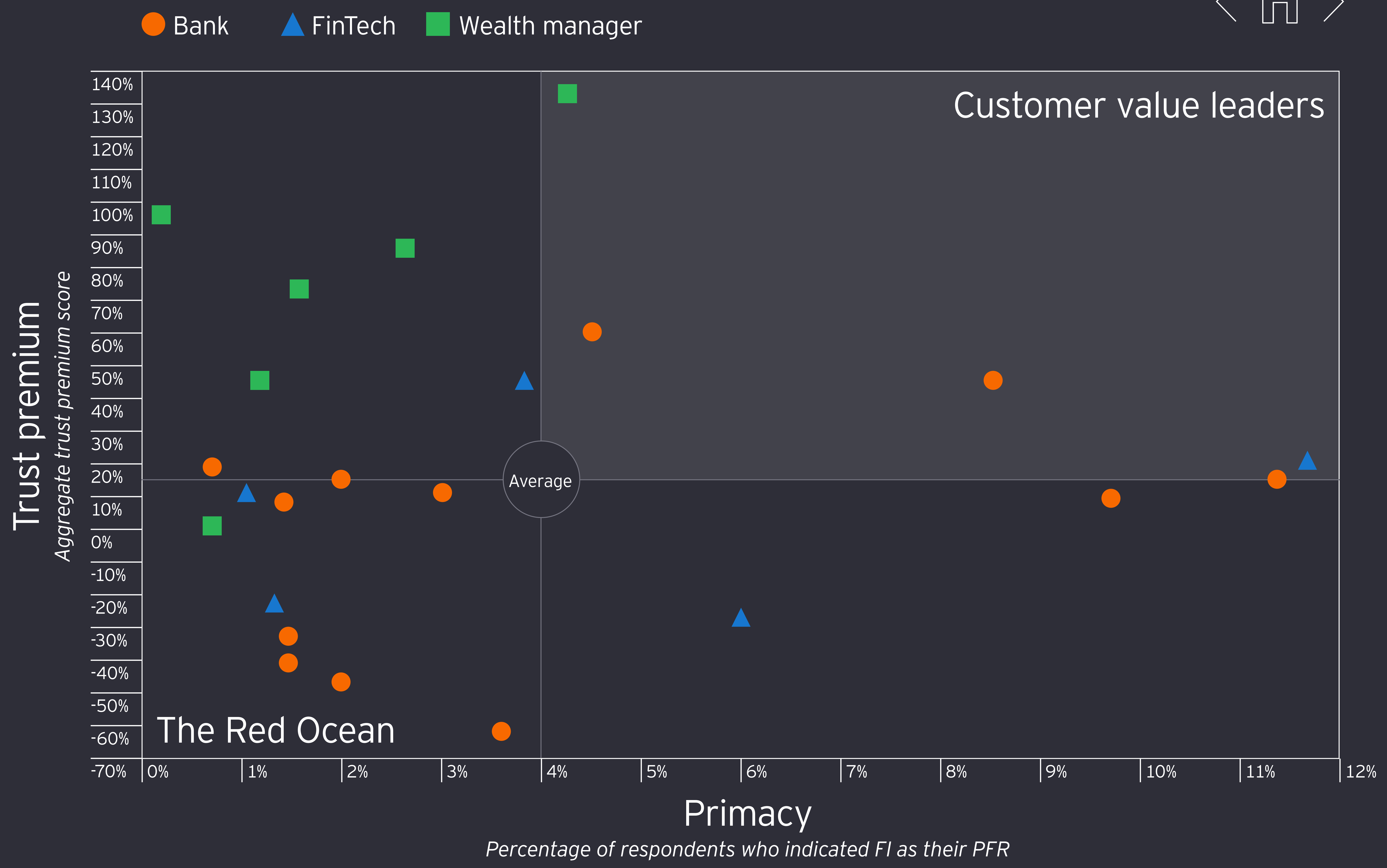
How customer value leaders outperform

We define customer value leaders as those firms that are significantly above the industry average on both trust premium and relationship primacy (see top right quadrant).

By analyzing how companies perform across both of these levers, we can assess company performance and industry dynamics through the eyes of consumers.

Key insights from our customer value leadership map:

1. The five customer value leaders have driven their growth agendas by differentiating a clear strategic model (i.e., segment-driven, E2E ecosystem, Interactions hub).
2. Wealth managers earn a significantly higher trust premium than other firms, giving them unique advantages in deepening customer relationships.
3. FinTechs have started to gain ground on the field, and they can accelerate primacy and trust based on their significant personalization and convenience.
4. Banks have the greatest potential to win on the combination of primacy and trust, but most currently compete as undifferentiated "market takers" rather than "market makers," which increases the difficulty of sustaining long-term relevance.



Source: EY NextWave Consumer Financial Services Research - March 2023.

Customer value leaders prioritize and invest in customer-centric capabilities

From the results of our survey of C-suite executives, it is clear that leading firms establish more customer-centric priorities and capabilities than lagging firms. These are the actions and investments that banks must make if they are to succeed, no matter which business model they choose to pursue. However, a consistent set of issues and challenges continue to plague organizations and prevent bold and thoughtful customer value acceleration.

What leaders do

Customer value leaders prioritize and invest in customer-centric capabilities to create space for deeper, trust-based engagement.

Customer-centric priorities

Percentage of companies citing customer-centric priorities as top strategic priorities

	Red Ocean firms	Customer value leaders	
New ways of working	18%	67%	Share leading best practices and process across business units
	27%	68%	Establish direct engagement with customers, bypassing intermediaries
	31%	72%	Optimize handoffs, transitions and collaboration between teams
People and culture	6%	48%	Build teams that reflect our values around diversity and inclusion
	4%	27%	Effectively integrate external talent to existing teams
	6%	36%	Obtain/train internal talent to improve speed of customer service
Data and insights	13%	61%	Quantify how an idea increases a customer's trust of the organization
	16%	67%	Access vendor and employee data to create a more holistic picture of customer experience
	18%	60%	Validate new or evolved solutions as instrumental to positive customer impact
Technology and enablement	27%	67%	Acquire or test additional tools, including tech stack and platform
	16%	63%	Leverage existing tools, including tech stack and platform
	16%	63%	Allocate costs or efforts across numerous initiatives

Source: EY survey of 415 C-suite financial services executives, fall 2022.

Achieving customer value leadership

Based on our research and ongoing market engagement, we have created a multidimensional blueprint for establishing the necessary capabilities for customer value leadership in the digital age. Addressing strategic, operational, technological and organizational matters, this holistic blueprint can help any organization transform to become a smart, connected enterprise. These are the actions and investments that banks must make if they are to succeed, no matter which business model they choose to pursue.

To become a customer value leader, banks should adopt a comprehensive plan, approach and organizational mindset that solves three critical dimensions in one connected agenda.

Crystallize growth ambitions and plan to execute

Think

Customer is the P&L; a customer-centric mindset must anchor growth ambitions

Change the game

Don't just compete for share; create new value for customers

Unlock value

Change how people, processes, platforms, data and controls work across organizational silos to accelerate growth

High-performance leadership culture

Promote vertical/horizontal alignment

Align leadership across lines of business and enterprise functions around a common growth ambition with shared KPIs and incentives

Embrace change agents

Empower change agents from within and align the right leaders to the required roles vs. fitting roles to the leaders who exist

Foster a performance mindset

Don't compete for talent; set the bar with a high-performance culture that makes the organization a "badge of honor" for talent

Executing beyond digital

Create connected value

Quickly and consistently incorporate partners into connected journey experiences on an industrial scale

Win with closed-loop data

Dominate the generative AI race with closed-loop data ecosystems that reinforce unique competitive advantages

Focus on delivery velocity

Solve the "how a bill becomes a law" problem by adapting internal processes, capabilities, delivery model and governance to support continuous delivery velocity

EY Co-Lab Foundry: Igniting growth to drive customer value leadership

Our client and partner engagement model is designed to break down internal silos and generate momentum around shared opportunities.

EY Innovators Platform

- Future-back experiences.
- Web 3.0, generative AI and metaverse.
- Modern ways of working.
- Boot camp training, activations, and prototypes.

1 ACTION PLAN

Outside-in perspective

Delivering through engaging and collaborative workshops and events, we help clients understand evolving market dynamics, consumer trends and benchmark readiness for transformation and growth.

2 TRANSFORMATION ROADMAP

Design the ecosystem

With a hands-on, "show not tell" approach, we map, design and simulate the internal and external connections that will drive market impact.

3 DIGITAL 3.0 PLAYBOOK

Connected delivery

- Activate connections across the ecosystem through new ways of working and delivering with a client-centric mindset.
- Continually measure impact once transformation is initiated to inform refinement to the strategy.

4 TRANSFORMATION PLATFORM

Scaled value

- Enable clients to execute, scale, and refine ways of working.
- Deliver sustainable improvement. Respond to market, consumer and employee trends.

VALUE STREAMS

1 Action plan

- EY NextWave insights platform
- Jump-start program:
  - Jump-start sessions
  - Impact platform
  - Outcomes and imperatives

2 Transformation roadmap

Moments that matter
See the opportunities, communicate the change and test the proposition

Service design
Simplify complexity, increase leverage and foster inclusivity

Benefits realization
Identify org impacts, align OKRs/ KPIs and define value drops

3 Digital 3.0 playbook

- Op/product model transformation
- EY keyhole accelerated cost reduction
- EY change experience
- Platform orchestration

4 Transformation platform

- EY nexus transformation platform
- EY cloud enablement center

The bottom line: winning the NextWave of Consumer Financial Services

As traditional value chains and business models are deconstructed, banks and other institutions can build on the foundation of trust and primacy to adapt nimble business models that flex as the value equation shifts and market needs evolve. Figuring out the right path forward requires deep understanding of external market forces, emerging consumer trends, current organizational competencies and brand equity.

But such insight is not a one-and-done proposition. Rather, the ability to generate and access insights on an ongoing basis – indeed, as part of standard operations and management processes – will lead to more informed decision-making and more confident performance management. That is what's necessary to achieve sustainable competitive advantage by becoming a customer value leader in the highly dynamic next wave of consumer financial services.

AUTHORS

Nikhil Lele

Eric Disend

Rob Mannamkery

Akshata Udiavar

CONTRIBUTORS

Girdhar Agrawal

Prateek Agarwal

Ian Bond

David Clarke

Maggie Hogan

Griffin Pararas

John Radecki

Balakumar Rengaswamy

Ridhima Sudan

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