

The Impact of Demographic and Lifestage Shifts on Consumer Trends in Financial Services

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Abstracts

Introduction

Traditional models of consumer segmentation are outdated by rapidly changing demographics and family structures. Product and service development must be undertaken with an appreciation of the wider socio-demographic context. Global events have changed the distribution of wealth across generations and FS providers must now question their assumptions.

Features and benefits

Enhance product design by appreciating the complexities surrounding demographic segmentation

Improve customer acquisition and retention through clear, actionable strategies.

Better understand the needs of your consumers through questioning assumptions and updating segmentation methodology

Highlights

The growth of the 'empty nester' lifestage is a reflection of the aging of society and greater longevity. Empty nesters are an increasingly powerful consumer cohort due to their greater financial freedom.

Providers need to ensure that they strike the balance between providing products geared for different age groups while still providing the right level of flexibility, so that

consumers feel the product has been tailored to their unique circumstances.

Many consumers are under the impression that they will not personally benefit from a life insurance policy as the policy wouldn't pay out until they die, ignoring critical illness and income protection insurance. They are therefore reluctant to pay for the service, which goes some way towards explaining the 44.0% life insurance product holding.

Your key questions answered

How are demographic trends changing the composition of your market?

How does product holding vary with age and marital status? Where are the opportunities for growth?

What challenges need to be overcome to increase product penetration and strengthen customer relations?

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The financial services landscape has changed post-downturn

A holistic view of consumers must be adopted

Tracking consumer trends is fundamental to long-term success

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Trend: Family and household arrangements are becoming ever more complex

Consumer complexity

Trend: socio-demographic analysis reveals opportunities for increased wallet share

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INTRODUCTION: THE IMPORTANCE OF TREND TRACKING TO FINANCIAL SERVICES

The post-recessionary financial services market presents new challenges for the industry

A microscope has been placed over the activities of the financial services community

Competition is fierce from within the industry and from new entrants

Consumer empowerment means providers must work harder than ever to attract and retain customers

Competing on price alone does not build profitability

Datamonitor is committed to creating a holistic view of 'the consumer'

Tracking consumer Megatrends is fundamental to long-term success

Megatrends can be classified in two ways, according to desirable product/service benefits or societal complexities

Megatrends can be broken down into trends and sub-trends, to provide structure and clarity at a time of 'information overload'

Adopting a broader, global perspective to trend tracking facilitates better decision-making by overcoming myopia

Trends have greater longer-term implications than fads

For every trend there is a 'counter-trend', while 'trend-crossover' is also an important phenomenon

Trends are aligned with pre-existing but evolving human values, attitudes, needs and behaviors

STRATEGIC CONTEXT

TREND: Population changes and composition are among the most basic influences on market opportunity

Population size and growth: stagnant population shifts in the 'Old World' of Europe contrast with the greater dynamism seen in the 'New World' and emergent high growth markets

Population by age: aging populations are affecting socio-economic, political and consumer priorities

Populations by gender: gender balanced societies are the norm internationally, but the Middle East and Africa buck the trend

Fertility and birth rates: declining fertility in the developed world adds to the aging of populations and the ascendancy of high growth markets

Life expectancy and death rates: life expectancies globally are becoming more consistent, although a divide persists between the developed and developing world. Life expectancy and death rates form the final component in the overall assessment of population trends. While these are changing over time in a positive way, (namely, lengthening life expectancies for individuals and stability or reduction in death rates), the international picture is characterized by significant variations between high growth markets and the developed world, showing that inequities will continue to persist for the foreseeable future.

TREND: Family and household arrangements are becoming ever more complex

Family status: family structures are becoming more diverse and breaking from traditional forms

Marriage: the strength of traditional family models as expressed by marriage rates is increasingly tested in postmodern societies

Divorce rates: family fragmentation is expressed by the propensity for divorce, although numbers are actually falling in many key markets

Household size: family sizes are falling as traditional units break up and diversify, and as parents have fewer children

Age at first child: New parents are getting older

Living arrangements: homeownership rates echo economic circumstances Home ownership is often viewed as an important indicator of aspiration in consumers, and as an expression of economic development. However, circumstances vary significantly by country and by region, while the primary economic dimension influencing the market at present is the impact of the global economic crisis.

Key take-outs and implications: increasing diversity in family structures and lifestages makes it harder to compartmentalize consumer groups

THE CONSUMER COMPLEXITY

Trend: the FS consumer life cycle is a useful tool for benchmarking, but cannot be used without flexibility and understanding

[Missing title]

Insight: FS providers need to balance demographic segmentation against catering to individual consumer needs

Trend: socio-demographic analysis reveals opportunities for increased wallet share

Insight: young single consumers are missing out on the benefits of credit

FS providers must encourage responsible use of credit cards for young consumers

Credit would be welcomed by young consumers and parents if fears over responsible management were placated

Insight: single consumers are prime acquisition targets for core banking services

Over 40% of young single consumers currently lack a current account

Young single consumers represent key cross-selling opportunities for FS providers

Insight: married and single consumers present very different challenges to savings institutions

Single consumers are much less likely to be saving than married or cohabiting consumers

Married savers will bounce back with the recovery; however, single consumers reveal longer-term problems

Insight: understanding the role of trigger events is essential for success in life insurance

Trigger events force consumers to reevaluate and consider their life insurance coverage

FS providers must make life insurance relevant to single consumers

Insight: pension providers must convince young consumers of the urgency of retirement demands

Consumers are worried about their retirement and yet are not acting to relieve these concerns

Insight: single consumer households are risking underinsurance

STRATEGY IN FOCUS

Trend: demographic and lifestage complexities must be understood if segmentation is to be effective

Insight: over a third of single consumers are disengaged with the FS community in their country

Insight: FS providers must appreciate the varied circumstances of the European baby boomer generation

The traditionally financially strong baby boomers are facing trying times

Insight: banks must innovate to allow families to help each other in times of financial hardship

Insight: FS providers must build a lifelong relationship starting with excellent student accounts

Students are only attractive acquisition targets if they are retained after graduation

Banks must look to meet longer-term consumer needs, or else they run the risk of being discarded after graduation

Personal recommendations are hugely influential in deciding a student's primary bank

Value for money and convenience are powerful factors for students

Providers have attempted to tighten post-graduation relationships by offering additional services upon graduation

STRATEGIC ACTION POINTS

Action point: FS providers must seek the 'peer vote' through an effective social media campaign

Action point: FS providers need to entice the young single consumer with clear benefits and rewards

Action point: credit card providers must ensure their cards offer rewards appealing to young single consumers

Action point: banks need to improve both financial management tools and the level of advice that accompanies them

Action point: banks need to structure accounts to show they understand student needs

Action point: savings institutions must appeal to the ambitions and desires of single consumers to encourage saving

Action point: life insurers depend too much on cross-selling, and need to improve consumer engagement

Action point: value-driven packaged accounts could counter underinsurance among young consumers

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Definitions

The Datamonitor Financial Services Consumer Insight Megatrend Framework

Methodology

Further reading

Ask the analyst

Datamonitor consulting

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