

The Impact of Financial Intelligence on Consumer Trends in Financial Services

<https://marketpublishers.com/r/I8073AB4101EN.html>

Date: January 2011

Pages: 86

Price: US\$ 3,450.00 (Single User License)

ID: I8073AB4101EN

Abstracts

Introduction

High levels of household debt and reduced levels of household savings left many consumers unprepared and vulnerable when the global economic crisis hit. FS providers have a role to play in increasing financial intelligence and making consumers responsible for their own debt. Increasing engagement with the industry and financial products will help to address low financial intelligence.

Features and benefits

Encourage consumers to address their finances by engaging them with the FS industry.

Learn why consumers do not always act rationally through understanding innate, cognitive biases.

Demonstrate empathy with consumers' debt problems through relevant advice and tools.

Highlights

Product holding increases with both financial intelligence and engagement. Consumers who avoid their finances are also avoiding saving and have a lower holding of a number of insurance products. Older consumers are more financially intelligent highlighting the importance of experience with the FS industry and its products. Providers can increase

financial intelligence among younger consumers by bringing this experience to them earlier. Consumers are not always rational in their decision making processes. FS providers must understand this and use innate cognitive biases to their advantage when positioning their products and services.

Your key questions answered

Why has consumer debt reached such high levels while savings have dropped?

Why do consumers often fail to make rational decisions about their finances?

How can FS providers help consumers to face up to their debt?

Can financial intelligence be taught, or does it simply come down to experience?

Contents

Executive Summary

The FS landscape has changed post-downturn

A holistic view of consumers must be adopted

Tracking consumer trends is fundamental to long-term success

Strategic context: consumer debt has risen to untenable levels in the last decade

Providers can increase product holding by raising levels of financial intelligence

Consumer understanding of the FS industry is driven by engagement and experience

Strategy in focus

Even financially literate consumers fail to manage their finances wisely

Providers need to address consumer disengagement

Consumers are actively avoiding engaging with their finances and the industry

Sources of financial advice are changing

Providers must make consumers aware of their own responsibility for debt

Strategic action points

OVERVIEW

Catalyst

Summary

Methodology

INTRODUCTION: THE IMPORTANCE OF TREND TRACKING TO FINANCIAL SERVICES

The post-recessionary FS market presents new challenges to the industry

A microscope has been placed over the activities of the FS community

Competition is fierce within the industry

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

Competing on price alone does not necessarily result in 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 long-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

Consumer debt has risen to untenable levels in the last decade

Favorable lending practices have allowed many to live beyond their means

Consumers in developed countries saw rising debt levels for years before the global economic crisis

Household savings have also fallen in the past decade

Consumers need educating about their finances

Insight: providers can increase product holding by raising levels of financial intelligence

Consumers who avoid their finances are also avoiding saving

Consumers who would rather not think about their finances are rejecting discretionary insurance products

Consumers who are not engaged with the FS industry are less likely to have a current account

Consumers who blame the industry for consumer debt have a high product holding

Insight: consumer understanding of the FS industry is driven by engagement and experience

The Financial Intelligence Complexity Megatrend is comprised of five key trends

Financial intelligence is not determined by levels of education

Experience helps to raise levels of financial intelligence

Addressing financial intelligence is beneficial to providers as well as consumers

STRATEGY IN FOCUS

Insight: behavioral economics shows how consumers are irrational in their decision making processes

Cognitive biases and heuristics affect consumers' decision-making processes

Consumers who are already in debt find it easier to go further into the red

Consumers will not switch for a small additional gain

Product information must be framed correctly

Insight: providers need to address consumer disengagement

Advantage: providers can build better relationships with customers through engagement

Advantage: consumers who avoid thinking about their finances need help to face up to reality

Insight: consumers are actively avoiding their finances and the industry

Advantage: consumers who watch and read the financial news will be more engaged with the industry

Advantage: consumers who open their statements will have a lower risk of financial difficulties

Insight: consumers are turning to non-traditional sources of financial advice

Advantage: FS providers can target consumers cheaply and quickly through online or viral campaigns

Insight: providers must make consumers aware of their responsibility for debt

Advantage: consumer debt is seen as a systemic fault rather than that of individual players

Takeout: in spite of everything consumers are happy to live beyond their means

The consumer demand for debt will remain in the short term

STRATEGIC ACTION POINTS

Current account providers should implement programs to teach the financial basics

Offer information or education on the financial basics

Current accounts should be accessible to the Underbanked

Providers must make statements more accessible

Savings providers must emphasize the importance of building up a nest-egg

Ensure consumers know the importance of a savings buffer

Make saving easy

Calculate exact gains on an individual basis

Credit card providers should help consumers manage their account

Educate consumers so that they use their cards wisely

Regularly inform consumers of their balance

Mortgage providers should help consumers prepare a budget for their mortgage

Ensure consumers understand all the implications of a mortgage

Help consumers to build up savings for a deposit

Consumers need a plan for paying back their mortgage

Personal loan providers must encourage consumers to use debt wisely

Consumers need to weigh up the benefits and drawbacks of a loan

Consumers need help flagging up when their debt has become unmanageable

General insurance providers should help consumers to see the value of insurance

Highlight potential financial losses to consumers

Product flexibility could encourage consumers to take out insurance

Help consumers to value their possessions and calculate their risk
Life insurance providers must make consumers see the product as a gain
The benefits of life insurance need to be explained
Life insurance products must be framed as a gain
Pension providers must combat consumer inertia towards saving
Educate consumers on the need for retirement planning
The future gains from pensions need to be highlighted
The consumer decision-making process must be taken into account when designing products

APPENDIX

Additional data
Definitions
The Datamonitor Financial Services Consumer Insight Megatrend framework
Methodology
Further reading
Ask the analyst
Datamonitor consulting
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