2019

ACXIOM FINANCIAL SERVICES REVIEW

THE NEW PICTURE OF FINANCIAL SERVICES

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Financial Services has historically been one of the business sectors most resistant to disruption by technology. Furthermore, consumer inertia in Financial Services has been high. Many consumers have generally been slow to change Financial Services providers. This is now changing.

As a new Financial Services landscape unfolds, bringing with it new competitors, partners, changing consumer behavior and new regulations – there is a need for change. And, the speed of change is more important than ever before.

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A NOTE FROM OUR CONTRIBUTORS

Welcome to Acxiom's 2019 Financial Services Industry Review!

We kick off this Industry Review addressing several of the key topics in the industry. Whether it is changing consumer expectations, new digital technologies, innovative partnerships, advancements with data and analytics, regulatory changes, or the Fintech startups that are on the attack – there is a lot to talk about.

Many of the marketing practices in Financial Services are being transformed – some are coming to an end. As Financial Services companies prepare for the future, they need to establish strategies and capabilities to reach and engage customers to improve business performance. The level of investment in marketing has never been higher and the complexity has risen. Given these challenges, Acxiom is here to help.

This report will offer up some compelling insights, courtesy of our 50 years of experience in the industry serving many of the largest most advanced Financial Services companies. Going forward, we want to continue to provide the Financial Services industry with not just leading technology solutions, but innovative ideas that can help advance your business. The following pages will give you a taste of our point of view on some relevant and timely topics. But there is more – we look forward to sharing other ideas in our future discussions with you.

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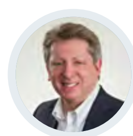

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COLLABORATIVE MARKETING

AN ESSENTIAL STRATEGY FOR FINANCIAL SERVICES PARTNERSHIPS

By: Scott Woepke

PARTNERSHIPS IN FINANCIAL SERVICES

Partnerships are not just an emerging trend. They are a new core competency for leading Financial Services companies. As partnerships continue to grow in number and evolve in structure, collaboration with marketing, sales and serving customers becomes more important than ever.

For Financial Services providers, partnering can extend products and platforms into new markets, expose brands to new customer segments and create scale. This is not a new dynamic in the industry. Partnerships have been a critical component of different sectors of the Financial Services industry for many years.

In an effort to compete more effectively and meet customer demands, many Financial Service companies have created partnerships to deliver better value to their customers. Collaboration among Financial Services companies with complementary products and services is designed to address customer requirements related to savings, borrowing and insurance, creating the “one-stop shop” capability. This type of partnership allows Financial Services companies to provide a more robust set of products and services so they can meet evolving customer financial needs.

Other partnerships like co-brand credit card programs were formed to create rewards and loyalty programs that help partners build relationships with high-value customers. The co-brand market has become an important source of customer acquisition and revenue for card issuers and their partners in the travel/entertainment, and retail industries.

Today, there are new and different partnership structures being created that move relationships among partners from competitors to collaborators in the Financial Services industry.

All this change is causing partners to change old ways of operating and creates the need to establish new practices. As part of these changes, those pursuing partnerships will need to rethink and effectively integrate marketing, sales and service activities to achieve their common goals and meet their customer expectations.

The changes with existing partnerships and the emergence of new partnerships is customer driven, not driven by new technology advancements. It is caused by customers seeking new experiences, rewards, transparency, and choice from their Financial Services providers.

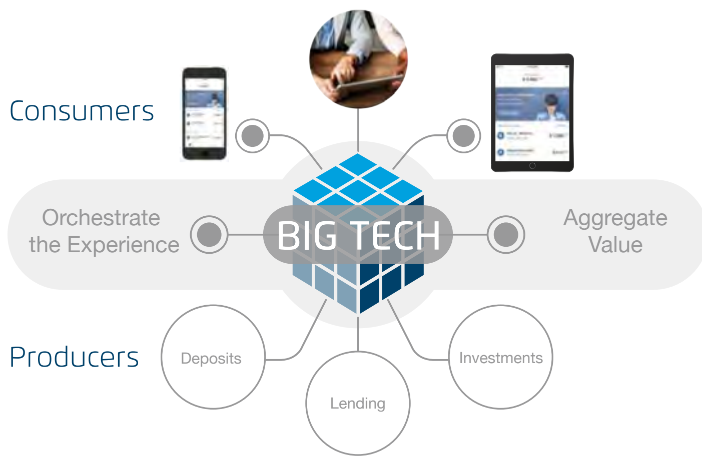
Successful growth of Financial Services partnerships will focus on delivering value to the customer. This is where a new coupling of marketing capabilities will come into play. This means using Financial Services products to create new experiences for customers. These interactions should create meaningful synergies for each partner and more importantly a completely new customer experience, an experience they are expecting.

We can expect the role of Financial Services partnerships will continue to shift in response to customer preferences. As customer expectations rise, Financial Services providers will be required to provide a fuller experience that is customer-driven and has the potential of changing the role of a consumer's primary Financial Services provider. As customers become more tech savvy, the value propositions and customer experiences Financial Services providers deliver will be increasingly shaped by customer demands.

PARTNERSHIPS WITH BIG TECH

Customer demand and growing trust in new technology companies may enable non-traditional providers to assume the role of controlling the customer relationship while traditional providers focus on manufacturing financial products. Big technology companies are uniquely capable of originating customers, delivering a great user experience and selling innovative products. Meanwhile, traditional banks are skilled at other capabilities such as understanding credit risk management, payment processing, and compliance.

The structure of this partnership allows the technology company to play a large role in the life of the customer. Customer loyalty and stickiness may erode. The risk for the Financial Services providers is that tech companies will own more of the customer relationship and branding in these deals, keeping the most lucrative parts of that relationship For the financial services industry, it will be important to find a way to continue their engagement with customers. This may mean, embracing the back seat and establishing partnerships that could represent millions of customers



In response to continually shifting customer preferences, new partnerships and business models will include:

ECOSYSTEM OF ALTERNATIVE PROVIDERS

Another new development is the non-traditional network of alternative Financial Services providers working together in an ecosystem to compete with incumbent full-service banks. As alternative providers of niche Financial Services continue to mature and become more reliable, we can expect to see these niche providers creating bi- or multilateral partnerships. These networks provide the ability to mix and match services to fit consumers' needs in a manner that is difficult for traditional Financial Services companies to accomplish. These services could include: payments (debit/credit/P2P), deposits (insured products), and access to ATMs. These networks of non- traditional niche providers have the ability to collectively meet consumers' banking needs and compete with traditional full-service banks.

An essential by-product of these networks is the large amount of data they use. As consumer activity increases, there is more and more data generated through natural network effects that can be utilized to support the development of customer relationships. This collection of customer interactions and other data presents an attractive opportunity for marketers supporting these partnerships.

The shift of consumer preferences to this channel provides increased choice and potentially lower prices and will impact their loyalty to traditional providers.

OUR HYPOTHESIS

Given the fast changes taking place in the Financial Services industry, we believe that partnerships need to redesign their marketing programs in a way that can deliver more value to their customers and improve their financial success. By doing so, Financial Services partnerships can begin to realize their full potential.

Newer partnership structures may have a lot of unknown problems at this point. But, one thing is known – the expectation of consumers. In the face of rising consumer expectations for a flexible, intuitive and personalized service across many platforms, there will be a disaggregation of manufacturing the products and the ownership of the customer relationship. This raises an important question – who owns the customer? From shopping for services to originating the account to servicing the relationship, there are important experiences that Financial Services providers want to shape and deliver. The connection to customers is certainly changing and creates a new challenge and opportunity for Financial Services providers.

Looking across these new partnership models (i.e. Big Tech and platform ecosystems) and longer tenured partnerships (i.e. co-brand programs), we believe that marketing programs are not yet fully developed and delivering on their full potential. In some extreme cases, we see decay in the partnership economic model caused by changing consumer behaviors that create profitability and revenue share challenges.

We have found that even in the best circumstances partners are missing opportunities to create better engagement with customers. Navigating the transformation that is required by changing consumer behaviors and the complex marketing and media environment is difficult. Our recommendation is for Financial Services companies to take a deep look at their partnerships and engage their partners to address challenges they are facing. Now is the time to build a response to future risk and take advantage of the opportunities that exist.

What follows is a review of the key steps to improving marketing and customer experience management. Based on our work in the industry, we have developed ideas and solutions that deserve marketers' attention. We provide a view into the credit card co-brand market and a perspective from both the issuer and their partners (including airline and retailing). This is a great example of how collaborative marketing can provide positive impact for partners and, more importantly, their customers.

Finally, the Acxiom solution themes will provide ideas and practical advice for investments and implementation to maximize the partnership collaboration opportunities.

STEPPING STONES TO SUCCESS

Reinventing the marketing function within partnerships will support the delivery of next-generation services that enable and engender loyalty. Although marketing and CRM capabilities exist within single companies, not many Financial Services partnerships have established a joint structure that is customer-driven and takes full advantage of the potential of the partnership. While our views on proposed changes are heavily dependent on technology, this is not a technology project. This is about how Financial Services companies that work together can offer services that demonstrate they are listening to, understand, and communicate with customers in a unique way.

The new approach to managing marketing and CRM functions will require a tighter collaboration between partners. This will change partnership agreements and require a more customer-focused view that drives value for both partners. This will be more than incremental changes – it will feel like a complete reinvention to many.

CUSTOMER INFORMATION EXCHANGE

Exchanging information is a critical component to a successful collaborative marketing strategy and is also dependent on managing privacy constraints. This entails acquiring and continuously updating knowledge of customers' needs, motivations, and behaviors over the lifetime of the relationship. Consolidating customer databases can be very complex and requires the ability to create unique customer ID and matching algorithms to create the single view of the customer across all data points.

ESTABLISHING CUSTOMER KNOWLEDGE

It is critical to apply customer knowledge to continuously improve performance through a learning process through successes and failures. Creating loyalty in Financial Services is becoming far more customer-centric, addressing pain points, creating improved experiences, and engaging the customer as an individual. Sharing data provides greater potential for Financial Services companies to make smarter suggestions and decisions that work for their customers – today and in the long run.

MARKETING, SALES AND SERVICES INTEGRATION

Collaborative marketing and CRM systems manage and synchronize customer interaction points and communication channels (telephone, direct mail, email, and digital). These customer-oriented processes are often fragmented across partnerships and not well structured. Their performance is hampered by the limited supply of knowledge of products, markets, and customers. Integration of these services should focus on a common goal that includes a focus on customer needs in order to generate maximum revenue and profit.

DATA PRIVACY

Privacy constraints are an issue in partnerships where data is being shared. Because customers own their personal data, customer data is essentially bound to the company that collects it and can only be used for the stated purposes. Therefore, it is important to have declaration of data sharing in "general terms and conditions" to obtain permission to use data for each new purpose. Well-designed policies and procedures need to be implemented to ensure data is managed in a privacy-compliant and ethical manner.

CREATING A COLLABORATION STRATEGY

Partners must establish a business strategy with a clear understanding and appreciation of each other's objectives, strengths, and competitive advantages. Many partnerships do not establish a thoughtful strategy, but those that do this well benefit greatly from the leverage partnerships bring. Taking a partnership-first mindset requires Financial Services providers must rethink the way they do business and potentially disrupt their traditional practices.

CO-BRAND CREDIT CARD MARKET

Not all Financial Services partnerships have been created by the latest wave of technology innovation.

To illustrate the opportunity that exists with collaborative marketing, there may be no greater example for change than in the co-brand credit card market. This market includes many of the world's largest credit card issuers, airlines, hotels, and retailers. The historical value proposition to consumers has been to offer attractive rewards; however, this benefit alone is not enough.

Consumers seek financial services products that are aligned with their financial and lifestyle needs and no longer value loyalty programs that don't pay attention to their attitudes, behaviors, and expectations.

This market has become highly competitive as the battle for cardholders has fueled higher rates of card rewards and an increasing variety of card benefits to attract them. Co-branded credit cards have faced pressure to sweeten the rewards pot. This is due to their strategic importance as loyalty tools for industries like retail, where brick-and-mortar retailers fight a potent mixture of price-driven shopping behavior and internet competition. Competitor pressure among retailers to draw customer traffic and differentiate their card programs has led to industry-wide increases in co-brand rewards rates over time.

It is now time for credit card companies to take a hard look at their proposition to determine which offerings consumers still value and to create benefits that are digital first, easy to use and truly relevant to how they live.

CO-BRAND MARKET CHARACTERISTICS

CARDHOLDER BASE

Co-brand cardholders are generally more affluent and credit worthy, which translates to higher than average spend and less risk attached to loan balances.

RETAIL LOYALTY PROGRAMS

The cards remain a powerful component of retail loyalty programs and strategies that generate revenue not only for the issuer but for retail partners as well.

SPEND GROWTH

While programs maintain a focus on increasing partner spend, outside spend can represent up to 70% additional spend with higher interchange rates.

DIGITAL INVESTMENTS

These programs can leverage customer-focused investments being made in digital and mobile and will become more important in the emerging digital world because of the growth of ecommerce.

PRODUCT STRATEGY

For issuers, the card product is a natural sibling to their other programs, which leverages existing technology investments in digital, data, and analytics.

MARKET GROWTH

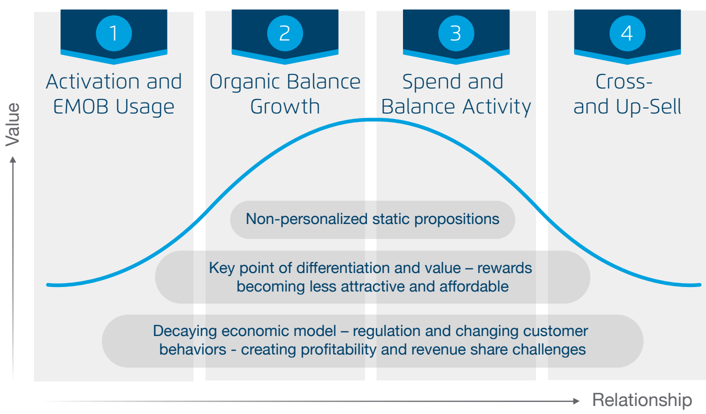
While the supply of card credit is on the high side, there is some settling and attractive growth opportunities for issuers.

CASE STUDY:

CO-BRAND CREDIT CARD MARKET

Cardholder engagement is an important metric in the co-brand market as it measures who has an active relationship with their card. Today, engagement has become a significant challenge. Beyond acquisition, many cardholders feel they are of little interest to the card issuer after starting the relationship. Static propositions that do not recognize the cardholder's lifestyle changes create a decline in spend and balance activity, creating a decay in the relationship over time. To change this dynamic, card issuers need to create experiences for cardholders that reflect who they are (i.e. frequent travelers, trend setters, affinity to luxury products, cash back collectors, etc.).

Cardholders and their partners need to identify new ways to maintain active purchasing behavior and loyalty to their brands.



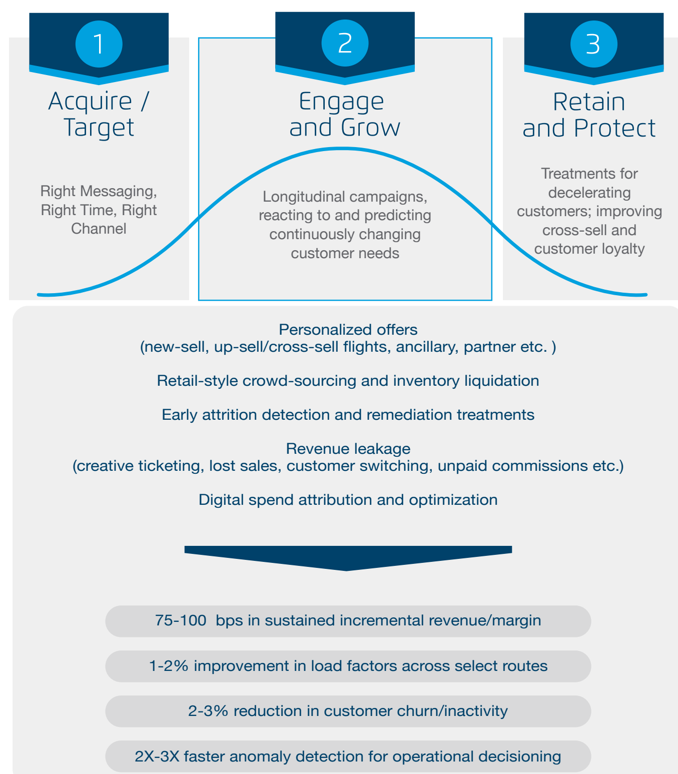
To counter declining customer value and static nature of co-brand programs, there is a need to create a more personalized experience that addresses customer needs and behaviors. Cardholders won't settle for mass-market, transactional loyalty approaches. Loyalty in Financial Services needs to focus on becoming far more customer-centric, addressing pain points, fulfilling desires and engaging with the consumer as an individual.

EXAMPLE: AIRLINE INDUSTRY

The trajectory of the airline industry often behaves like an aircraft – off to new heights in the sky and dips to ground level. New advancements in analytical solutions that optimize revenue, new designs of loyalty programs, and improved customer service can remove the turbulence this industry experiences.

Co-branded credit cards play an important role for airlines and their card issuers, each of which benefit from credit card engagement and purchasing behavior. The cards play an integral role in frequent flyer programs, helping drive flyer loyalty. Airline customer interactions come through many channels (customer service centers, online travel agencies, websites, and more). Additionally, the co-brand card partners see significant transaction data that identifies travel activity and purchasing patterns that are strong triggers for airline marketing programs. All these interactions generate crucial information on passenger needs and preferences that enable up-sell/cross-sell, pricing and preferred experiences (i.e. early boarding or flight update notifications).

AIRLINE CUSTOMER LIFECYCLE



EXAMPLE: RETAIL INDUSTRY

The retail industry has undergone a significant transformation over the past decade, and it continues to evolve quickly. The face of the market is evolving, and retailers must adapt to new shifts in demographics, attitudes, and consumer preferences.

Forward-thinking retailers are beginning to leverage the vast amounts of data they possess as well as other sources (i.e. credit card co-brand partners, demographic sources, other). Gathering and analyzing the data, specifically the new data sources created by partners, creates the ability to make offers and decisions that are targeted, localized as well as delivered in real time.

CHALLENGE:

TYPICAL RETAILER:

Lack of growth, declining share of basket and mind, falling footfall, declining margins, loss of customer loyalty, rising costs, focus on cost not value, displacement by online, need to embrace digital to extend reach and footprint

FROM: TYPICAL INSIGHT AND UNDERSTANDING CHALLENGES

- Lots of data but limited customer insight – little understanding of holistic behaviors, personas, needs or trigger points
- Episodic marketing campaigns, generally focused on price and founded on static data
- Limited "built-in learning" capability in customer management, marketing and sales processes
- No means of managing lifecycle and engagement, e.g. identifying customers at (attrition) risk
- Long timelines to scale campaigns and use cases – difficulties measuring campaign performance and linkage to core KPIs
- Propositions and promotions not integrated (e.g. co-brand not integrated into "business as usual")

TO: OPTIMIZATION AND PERSONALIZATION

- Extending customer reach
- Tracking and targeting competitors
- Lifecycle management
- Channel mix optimization
- Enhancing engagement and rewards
- Life-stage triggers, needs, behaviors modelling
- Category, brand and product cross-sell
- Basket typology – purchase correlations, propensity models, brand extensions, etc.
- Predictive analysis / "what-if' modeling – e.g., churn propensity modeling, demand modeling

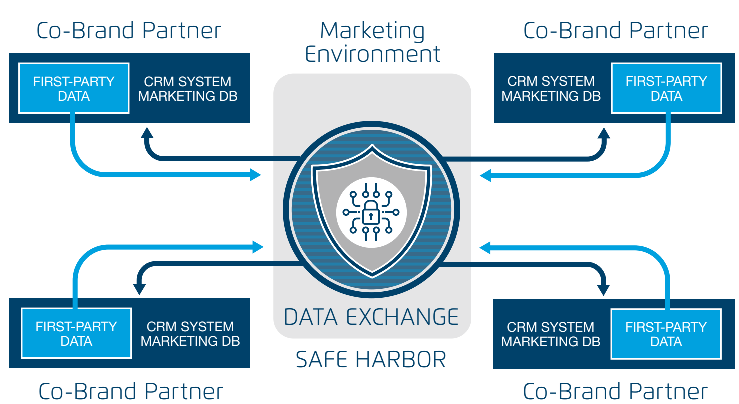
SOLUTION THEMES

A DATA EXCHANGE

Sharing customer information is critical to the interwoven marketing capabilities needed for successful partnerships. It starts with the data foundation. A data "safe haven" provides a privacy-compliant environment that allows marketers and partners to connect different types of data while protecting and governing its use. This is the "power grid" for people-based marketing that partners need to engage consumers across today's highly fragmented landscape of channels and devices.

The "safe haven" provides the ability to ingest customer records from partners as well as core campaign and engagement logs used for measurement and analytics. This data can also be enhanced by third-party sources (demographic data, propensity models) to enrich the view of the consumer and create new insights to support new audience creation for marketing programs.

Organizing, managing, and deriving insights from large sets of consumer data is complicated. Consequently, companies rely on Acxiom to address the challenges of managing data to unlock its full value. An important component is the Acxiom connectivity solution, IdentityLink, which is a proprietary identity resolution service that integrates data to provide a single view of the customer. IdentityLink resolves first-, second-, and third-party data, exposure and transaction data to a persistent anonymous consumer identifier that represents real people in a privacy-compliant way. This omnichannel view of the consumer can then be onboarded to and between more than 500 platforms in our digital marketing ecosystem to support targeting, personalization, and measurement use cases.



SOLUTION THEMES

B MARKETING ON DEMAND

Providing the capabilities for marketing execution is a marketing technology stack than enables people-based marketing campaigns, the ability to measure real results, and drive a continual cycle of optimization. This environment provides best-in-class technology and a wide range of professional services (analytical, marketing strategy, creative) that delivers an "always-on" highly scalable capability to deliver the greatest return on marketing investment (ROMI).

Significant advancements can be made with marketing execution by providing leading technology across partners. A new and modern marketing environment provides partners with the latest technology and tools to improve marketing effectiveness and the ability to continuously measure and optimize results. These capabilities are vital in today's complex digital marketing ecosystem.

BUSINESS USE CASE – ENHANCED CUSTOM AUDIENCES:

Custom audiences with full view of marketplace data will drive greatest ROMI impact:

- Flexible audience development including overall conversion and product-specific purchase conversion
- Custom models applicable to acquisition, customer development, retention and win-back

BUSINESS USE CASE – CAMPAIGN MANAGEMENT:

Platform with campaign management tools and reporting interface provides single-stop solution for campaign execution and evaluation across channels:

- 360-degree campaign planning, execution and evaluation
- Total market view of performance could include peer benchmarking

BUSINESS USE CASE – CLOSED-LOOP MEASUREMENT:

Measure and optimize campaigns across entire customer portfolio even without CRM data:

- Campaign dashboard reporting
- Establish campaign frequency caps and optimal impression CPMs
- Industry peer-group benchmarking

BUSINESS USE CASE – PREDICTIVE MODELS:

Privacy-compliant, co-mingled partner data for customer and marketplace insight driving:

- Custom models that are "portable" to partner's environment
- Ability to develop custom models where partner data informs the target but no partner data is required for scoring

SOLUTION THEMES

C ANALYTIC PLATFORM

Partners have an unprecedented opportunity to unlock new sources of value and revenue in their customer bases through new tools underpinned by advanced analytics. Significant opportunities exist with the application of data, automation, and new analytical techniques to drive efficiencies and innovation for growth. A shared analytics platform can help Financial Services companies and their partners scale and maximize the value of an underutilized asset – data.

The new analytical platform provides partners with the appropriate skills (such as data analysts and scientists, digital marketing experts, etc.) and functional experience (marketing, product and finance) to guide the process of gathering and leveraging data and embedding its usage into decision making. This can also eliminate the common pain points that delay analytical projects, capping short-term and long-term opportunities.

Quick wins can be established across a number of areas – customer segmentation, model development, campaign measurement, forecasting, and others. By using advanced analytics and mining existing data, companies will reveal significant opportunities across the customer lifecycle, including engagement, cross-sell opportunities, pricing optimization, and product innovation.

Partners will also be able to optimize their analytical expense through new tools that focus high-paid resources on high-value activities as opposed to some of the lower-value activity of data preparation.

SOLUTION THEMES

D CUSTOMER EXPERIENCE MANAGEMENT

This is the cumulative impact of multiple touch points over customers' interaction with their Financial Services provider and partners.

The key disciplines to create a great customer experience are strategy, customer understanding, design, measurement, governance, and culture. Financial Services providers/partners need to deliver an experience that sets them apart in the eyes of their customers, which will increase the amount of spending and inspire loyalty to their brand. This loyalty is now driven primarily by the interaction with customers and how well they deliver on their wants and needs.

Adding value to customers buying products and services through customer participation and connection is done by managing all aspects of the encounter. Financial Services providers can create and modify touch points so they are suited to their customers, which changes and enhances the customer's experience. This can be done by leveraging new data assets, advanced analytics, and communication platforms.

In today's competitive climate, more than just low prices and innovative products are required to survive and grow. Understanding and effectively developing a positive customer experience has become a staple as businesses and brands combat growing competition. Many consumers are well informed, and they are able to easily compare two similar products or services together. Therefore, consumers are looking for experiences that can fulfil their needs.

SOLUTION THEMES

E PRIVACY BY DESIGN

Diligence in the areas of consumer privacy and security is and will continue to be paramount. Consumer understanding of the benefits of marketing technology often lags the pace of innovation, inspiring new demands from government agencies and consumer advocacy groups across the world.

"Privacy by Design" is a comprehensive approach to solution design that includes adherence to data policies, extensive PIA reviews to understand each step of data processing and implementing technology that supports privacy policies and regulations.

Key components include: categorizing data ingested, tracking and categorizing outputs, opt-out and delete capabilities, preparing consumer-specific data for a customer access request report, verification, and brand-specific identity graph.

COLLABORATIVE MARKETING SOLUTION SUMMARY

The new collaborative marketing model provides several important innovations.

This new way of operating creates an open-source approach to incorporating new data sets and complementary data sets that boost the effectiveness and efficiency of marketing efforts, instead of a narrow approach that relies on a single "owned" data set.

It enables the ability to deliver customer insights and marketing capabilities faster and more accurately – exactly what customers want.

Future marketing partnerships will develop new ways to explore customer growth and will no longer be limited by arbitrary partnership structures and dated business strategies. The new coupling of marketing creates new experiences for customers that deliver new market share gains and the experience customers are seeking.

This a strategy of creating new experiences with products and all customer interactions that creates meaningful synergies for each partner. This is a customer-driven phenomenon. It is not driven by technology innovation; rather, it is caused by customers who are seeking new experiences, rewards, transparency, and choice from their Financial Services provider.

CONCLUSION

In today's ever-changing Financial Services market, inclusion, connectedness, and collaboration are vital. As Financial Services providers prepare for the future, they need to take a creative approach to strategic partnerships, which will be critical to meeting customer demands and creating value.

As we look ahead, more and more changes will be customer-led. New value propositions and customer experiences will be shaped by customer expectations. These experiences will be based on how customers want banking to function in their day-to-day lives and how they expect partnerships to function.

All the customer interactions with Financial Services companies and their partners create valuable data – whether it is a point-of-sale payment, a tap on the screen, or a key stroke. Consumers share purchasing behavior, clicks, searches, likes, posts, and other information. We advocate the new open-source approach to data collection and usage as a method of creating new experiences.

Now is the time for Financial Services partnerships to think creatively and to implement capabilities that have a customer focus that leverages data. This development will create more value in rewards and loyalty programs and make partnerships a much richer proposition.

We anticipate the changes in how partners execute marketing to be a continuous innovation process that will shape customer behaviors, business models, and the structures of future partnerships in the Financial Services industry.

CREDIT MARKETING WITH ALTERNATIVE DATA

WAYS TO IMPROVE MARKETING WITH DEMOGRAPHIC AND LIFESTYLE DATA

By: Steve Gausch

In spite of the many forecasts of its demise, direct mail continues to serve as a leading new account acquisition channel for personal lenders and credit card issuers. Annual credit card industry direct mail volumes have remained steady over the past several years at roughly 3.5 billion pieces. This is primarily due to the tight integration between direct mail and the prescreening process, which leverages consumer credit data maintained and managed by the three credit bureaus and allows lenders to deliver consumers pre-selected or pre-approved offers of credit.

To illustrate, research by Mintel Group indicates that in April, more than 75% of all direct mail credit card solicitations were prescreened. While this statistic varies slightly from month to month, it's clear that prescreened offers represent a significant majority of personal loan and credit card offer mail volume. And this is with good reason, as consumer credit data, whose use for credit marketing purposes requires lenders and issuers to extend firm offers of credit, is the most powerful, predictive and valuable data at issuers' disposal. It's unparalleled at identifying which consumers are most likely in-market for a new loan or card, gauging a consumer's risk profile, and understanding potential profitability. However, issuers and lenders can drive even better marketing results when they combine the use of credit data with other alternative, non-credit-based data

WHAT IS ALTERNATIVE DATA FOR CONSUMER CREDIT MARKETING?

For our purposes, alternative data can be defined as consumer information generated from sources other than a consumer credit reporting agency or credit bureau. This data includes information such as demographics; lifestyle and psychographic data; property and homeownership information; product purchase, usage and propensity data; and brand and channel preference information.

Typical demographic data may include attributes such as age, estimated income, and presence of children in the household. Lifestyle data focuses on a consumer's avocations, interests and hobbies such as gardening, sailing, or golf. Property and homeownership data indicates whether the consumer owns a home, when it was purchased, the purchase price and how much was borrowed. Product usage and purchase data identifies the type of consumer goods the individual tends to consume, such as electronics, high-end fashion, or cruise packages. Brand and channel preference indicate whether the consumer, for example, prefers American or Southwest airlines or banks online or mostly via the branch.

This type of alternative data is available from a multitude of private and public sources and is most efficiently acquired from a firm that specialize in compiling and aggregating this data from a multitude of sources. Much like consumer credit data, alternative data is maintained at the consumer (individual) or household level and resolves to a specific name and address. A typical high-quality provider of alternative data will maintain data on virtual every adult consumer in the country, more than 200 million records.

THE COMPLEMENTARY NATURE OF CREDIT AND ALTERNATIVE DATA FOR CREDIT MARKETING

While credit data has proven powerful for targeting prospects based on predicted responsiveness, revenue potential and creditworthiness, it does have its limitations. It provides little insight into the profile of the consumers who are your most desirable prospects. What do they look like, what is motivating them to respond to your solicitation or offer, how and why are they most likely to use your card or loan, and what marketing messages resonate best with them? Attempting to answer these questions based solely on the prospect's credit data attributes such as bankcard utilization, or total available credit or number of 30-day delinquencies, will prove challenging at the least. However, if marketers also know the prospect's life stage, dominant lifestyle, affluence level, brand preferences, disposable income and purchase propensities, they can much more effectively tailor the creative and messaging to the individual prospect or a segment of similar prospects.

In this manner, credit data is used to quantify the desirability of the prospect from a financial perspective, and alternative data is used to develop and extend the marketing message that will most compel a response.

LEVERAGING ALTERNATIVE DATA TO CREATE SEGMENTED CREATIVE AND MARKETING MESSAGES

As an example, consider marketing an unsecured personal loan. Research has shown that two of the most common motivations for consumers to pursue a personal loan are debt consolidation and home improvement projects. In addition, the research has shown that consumers with sub- or near-prime credit are much more likely to use a personal loan for debt consolidation, while prime and prime-plus consumers are significantly more likely to use the loan for home improvements. A lender might employ two creative executions, one focused on debt consolidation, the other on home improvement and target the prospect universe accordingly based on credit score. While this approach will prove more effective than a single message and creative for all prospects, it still may be ineffective for a high net worth empty-nest couple with prime credit that no longer owns a home and now rents. In this case, a message focused on taking the loan for international travel or the vacation of a lifetime may prove even more effective.

Even for prospects within the same segment, messaging and creative can be tailored and distinct based on the prospects' alternative data profile. Extending the example above, consider two prospects, both homeowners with prime credit. Both will receive an offer for a personal loan, and the messaging for both will stress using the loan for home improvements. However, if one of the prospects is determined, based on property data, to have owned the home for a dozen or more years, maybe the message focuses on replacing and upgrading dated furnishings and décor, while for the other who purchased the home as new construction within the past three years, the message focuses on using the loan to add new features and amenities like a deck or patio.

REACHING UNDERSERVED PROSPECTS

Another valuable use of alternative data for credit marketers is to reach prospects who they typically, albeit inadvertently, ignore – credit bureau opt-outs. These are consumers who have proactively contacted one or more of the major credit reporting agencies and requested they be excluded from receiving prescreened offers of credit. Estimates of the size of this population range from 30 to 60 million consumers.

While these consumers cannot be solicited with prescreened offers generated from credit bureau data, it is permissible to solicit them with invitation-to-apply offers, using data from other non-regulated sources. Given the fact these consumers have specifically requested to be excluded from receiving new credit offer solicitations, you would think they would be highly unresponsive to these offers. However, work Acxiom has conducted for a number of our credit card and personal loan clients indicates that, quite to the contrary, selective targeting of opt-outs can generate very favorable results. This likely is due to the fact that opt-outs receive fewer offers than opt-in consumers and give more consideration to offers they do receive.

The process used to identify and target this underserved segment includes resolving consumer identities across a credit marketer's prescreen and ITA marketing universes, and leveraging alternative data to drive models that segment and target those prospects most responsive to an offer and most likely to be approved.

While the available number of opt-out prospects will never be as large as an issuer's prescreen marketing universe, it still can be significant enough to warrant investment in such a program and is viewed by many of our clients as a channel to supplement their prescreen marketing efforts and generate incremental accounts. When implemented in this manner, many of our clients generate acquisition rates in the ITA channel comparable to those in the prescreen channel, albeit with higher response and lower approval rates.

Product	Channel	Mail Quantity	Response Rate	Approval Rate	Acquisition Rate
Cash Back	Prescreen ITA	4,600,00 500,000	0.18% 0.40%	69% 30%	0.12% 0.12%
Rewards	Prescreen ITA	3,500,000 300,000	0.12% 0.21%	80% 37%	0.10% 0.08%
Low Rate	Prescreen ITA	1,600,000 300,000	0.17% 0.75%	69% 18%	0.12% 0.13%

A representative comparison of ITA and prescreen campaign performance is shown in the table below.

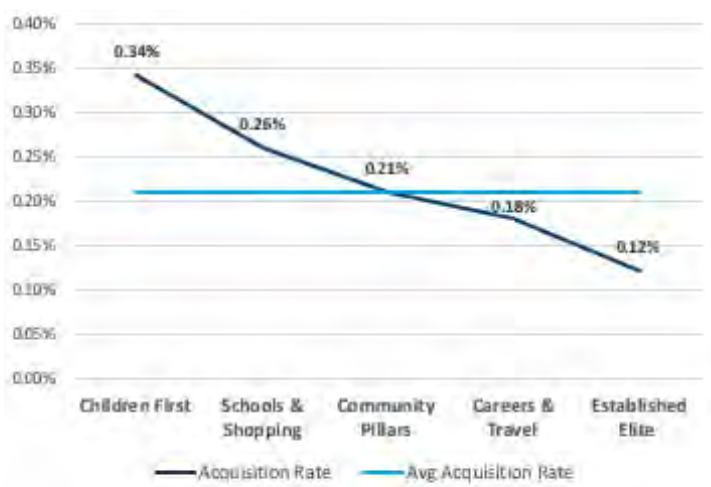
Another underserved segment that can be identified and targeted using alternative data is the "thin file" or new-to-credit universe. As the name implies, this segment comprises consumers with few or no credit trades on their credit bureau record. Typically, these consumers are young and just entering adulthood, or are new to the country. Many credit card issuers and lenders find these consumers attractive prospects and wish to actively market to them. Experience has shown that many consumers remain loyal to the credit grantor that offers them their first card and it affords the issuer opportunities to up-sell and cross-sell additional financial products and services. Acxiom has developed methods similar to those used to identified likely opt-outs to identify these new-to-credit consumers.

AUGMENTING CREDIT DATA-BASED MODELS WITH ALTERNATIVE DATA

In a similar fashion, issuers can also use alternative data to augment or supplement the credit data they use in their prescreen marketing models. While generally less powerful in these specific applications than credit data, alternative data can "round out" predictive prescreen scores and add incremental improvements in performance.

As an example, travel propensity data may be useful in adding incremental lift in models targeting a rewards card that is heavy on travel and entertainment rewards. Or data indicating a household has one or more near-adult age children could add value in models targeting supplemental card or authorized user marketing campaigns.

Working with our clients, Acxiom has found that alternative data, primarily demographic and lifestyle data, can be powerful in identifying a consumer's credit card product preference and in providing additional lift in acquisition rates when used as an overlay to an issuer's prescreen response and risk scores. This is indicative of the fact that life stage, lifestyle, and affluence levels influence the type of credit products consumers gravitate towards and find most valuable. Results from a client's prescreen new account direct mail acquisition campaign featuring a cash-back card are shown below.



Segment	Age	HH Income	Own/ Rent	Children	Net Worth
Children First	30-40	$50-$75k	Rent	Y	< $250k
Schools & Shopping	35-45	$75-$100k	Own	Y	< $250k
Community Piillars	40-55	$75-$100k	Own	Y	< $500k
Careers & Travel	40-55	$125+	Rent	N	< $1MM
Established Elite	45-65	$125k+	Own	N	> $1MM

Using just credit data and the issuer's standard response and risk score to target the campaign resulted in an overall acquisition rate of 21 bps (0.21%). By adding a demographic segmentation attribute into the selection criteria, the issuer could have increased the overall acquisition rate to as high as 34 bps (0.34%) had they applied their typical response and approval score but only included consumers deemed to fall into the "Children First" segment. More likely, the issuer would have include records from all segments with acquisition rates above the 21 bps average and suppressed those with acquisition rates lower than 21 bps to improve overall campaign performance substantially.

DRIVING TARGETED DIGITAL DISPLAY ADVERTISING

Research by Mintel Group indicates that as far back as February 2018, over half of all consumers who opened a new credit card account obtained the offer from a digital source. Additional research from Winterberry Group forecasts online media spending to increase by more than 15% in 2019 versus 2018. Clearly, card issuers and lenders are continuing to increase their investment in digital advertising for both new account and existing customer marketing.

That said, credit marketers seeking to conduct prescreen display advertising for new account acquisition face somewhat of a challenge, as most available solutions lack the scale and scope lenders desire and require. As a result, many have turned to alternative data and invitation-to-apply offers in the digital display channel. They are integrating both offline and online data to target and reach their desired audience of responsive, engaged and creditworthy consumers at greater scale and with more flexibility.

In fact, testing with several of Acxiom's financial services clients has demonstrated that the combination of offline and online consumer data generates superior results compared to using online data alone when targeting consumers for new account acquisition. Representative results are shown in the table below. They were generated from a digital display campaign Acxiom conducted on a social media platform for a large card issuer with the objective of acquiring new credit card customers.

	On-Line Only	On-Line & Off-Line Data
Marketing Quantity	2,600,000	3,050,000
Total Impressions	22,300,000	21,400,000
Application Rate	0.064%	0.101%
Approval Rate	53%	64%
Acquisition Rate	0.034%	0.064%
Acquisition Rate Lift		89%

As the table above shows, both response rate and approval rate were higher for the campaign that used a combination of both online and offline data to select and target prospects, leading to an acquisition rate almost double that of the campaign using only online data that is typically employed in most of today's digital acquisition programs.

CONCLUSION

While the uses and applications of credit data are undeniable for credit marketers, integration of alternative non-credit data sources enable even more powerful and effective direct-to-consumer marketing in both offline and online channels.

Going forward, we expect more credit issuers to explore and leverage the benefits of new data sources.

FUTURE OF FINTECH:

KEYS TO SUCCESS IN THE NEW WORLD OF FINANCIAL SERVICES

By: Scott Woepke

INTRODUCTION

"Fintech" has become a ubiquitous buzzword in the financial sector. The term "Fintech" is used interchangeably to describe both technology-driven innovation across financial services and a specific group of companies that combine innovative business models with technology to enable, enhance, and disrupt the Financial Services sector.

Incumbent Financial Services providers have proven they are able to build technology. There are many financial services technology advancements that have been accomplished over the years with thousands of technology patents as evidence. But, what they lack is the "startup-driven innovation" of Fintechs. These differences have created the passing lane for Fintechs to enter the market with highly targeted products and services, creating pressure for incumbents.

This article will provide you with a fresh perspective on the Fintech marketplace – key product developments, consumer trends and expectations, and a view into the future. As we peer into the future, we see new digital services replacing traditional banking products. But the road ahead is filled with construction, and Fintech providers will need to successfully navigate this environment and evolve their capabilities to remain relevant to consumers' needs and interests.

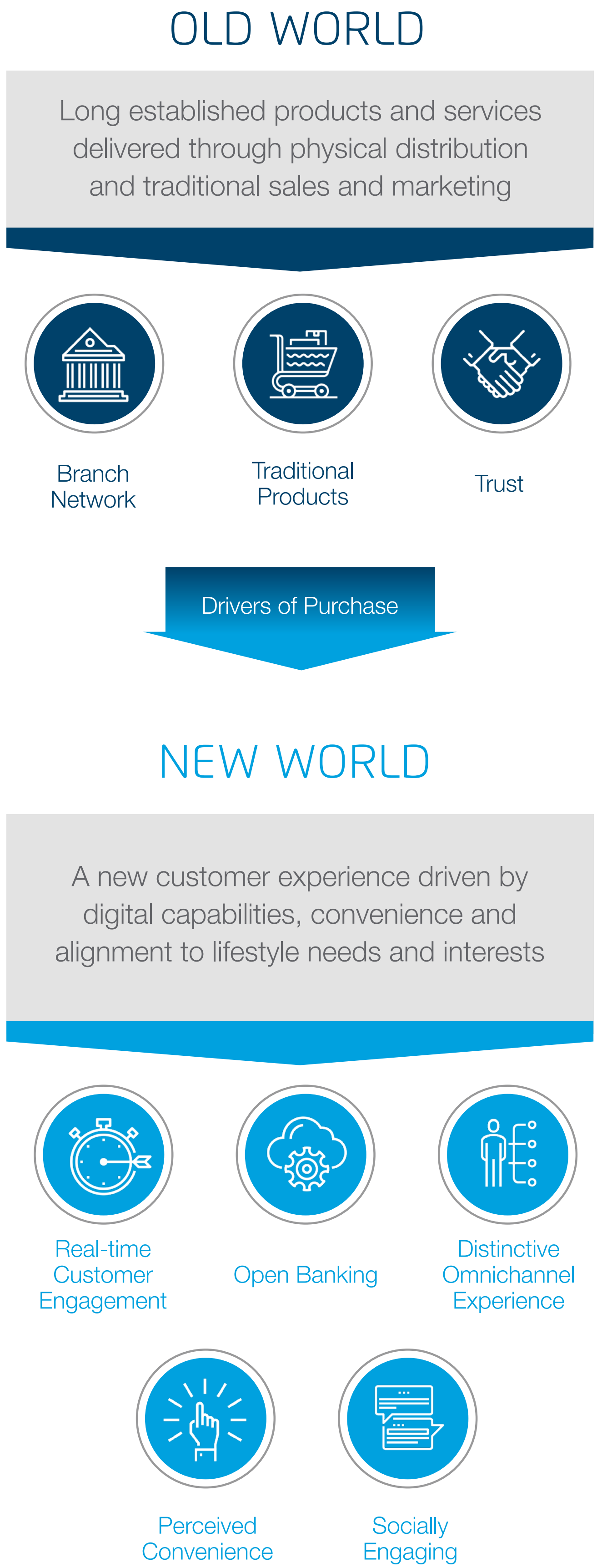
A central question will be: How do you provide consumers with services to help them manage and improve their financial lives? We don't believe consumers want a financial services account solely to replace existing accounts because it is digital. What they are seeking are relationships with providers that make managing financial matters easier and better integrated into their lives. For Fintech providers, developing the solutions that meet current and evolving consumer expectations will be key to their success.

THE FINTECH ADVANTAGE

Fintechs have a new way of approaching the financial industry that is not tied to a legacy of operations and organizational rules and structure. As a result, they can provide products and services that are faster, easier, and/or cheaper than what traditional banks can deliver.

By leveraging technology to deliver value and convenience, Fintech companies often target services with the most friction in the delivery process as well as those with the highest profit margins. Fintech firms are drivers of technology change in the industry, helping establish how Financial Servies will evolve. The movement toward open banking and open APIs will only increase the speed of change as Fintechs' business models and technologies allow them to align with new opportunities very quickly.

Convenience and ease of use have been key drivers of Fintech growth. For many consumers, the simplicity of opening an account is the primary reason why they select a Fintech provider. A strong focus on the customer experience has delivered tangible benefits for customers across channels, including more choice, better services and lower prices. The overarching advantage Fintech solutions provide is the ability to make consumers' lives easier. This deeper understanding of customers has driven the creation of specialized products and services that align with the way customers want banking to function in their day-to-day lives. The new customer experience is more personal, instant, relevant, and seamless.



FINTECH: PRODUCT CATEGORIES

The Fintech market has many providers across different product categories. Many have entered the market with a single product proposition, and some are now offering more services to help establish stronger relationships and more engagement.

Fintechs are offering a wide range of products: personal loans, deposits, mortgages, savings/investments, credit cards, and payments. In addition to the new digital offerings, a new market has developed for "platforms" that enable a new shopping and purchasing environment for consumers and a new distribution channel for Financial Services providers.

PERSONAL LOANS

Once a credit product of last resort for many borrowers, personal loans have become the fastest growing segment of consumer credit in the United States. New Fintech entrants offering new product structures and flexible pricing have increased the popularity of the product. Consumers have responded favorably to the simple way to secure funding to support debt consolidation, larger purchases, and other financing needs. Personal loan originations have grown markedly across the credit spectrum – it is not just a credit product for consumers in lower credit quality segments.

DEPOSITS

This market has changed dramatically over the past few years as consumers have grown more comfortable opening accounts online and engaging in transactions away from the traditional bank branch. Technology has advanced and opening an account now can be a truly digital experience. This is not exclusively a Fintech domain, as many large banks have established online banks to attract digitally oriented consumers seeking higher interest rates. Digital-only banks have grown rapidly thanks to their strong focus on service and their ability to offer higher rates due to their lower cost of delivery.

MORTGAGES

Disruption has taken place in the mortgage industry with new data-driven and digital mortgage experiences. Both lenders and consumers have benefited from the change. Lenders on the forefront of this trend benefit from lower origination costs and shorter cycle times. And a better and less stressful borrower experience has created a much-improved experience for the consumer. A broad range of Fintech companies has developed solutions to support various lender business models and automation needs. Some of these products are designed to deliver a collaborative borrower experience with an emphasis on online lenders and mobile channels. Other functions focus as integrators of data and services across the mortgage supply chain, providing a one-stop shop while removing the need for lenders to manage multiple external integrations.

SAVINGS/INVESTING

Services in this category included online investing, personal financial management tools, crowdfunding, and peer-to-peer (P2P) lending. Investing advice via digital delivery – think of Chatbots and RoboAdvisors – has become popular. Other new services include using open APIs to access accounts across providers to support investors with a complete picture of their assets. Many of these new capabilities are delivered via applications to help investors manage their money on mobile devices.

CREDIT CARDS

New entrants have focused on the re-invention of and disruption to the credit card market. Connecting cards to mobile payments, enabling credit card use for a wide range of expense payments connected to rewards programs, providing the ability to better manage multiple credit card relationships through mobile applications – these are some of the areas of innovation. We are also seeing new uses of machine learning technology and alternative data to provide access to credit to the next generation of credit customers.

FINANCIAL SERVICES PLATFORMS

More financial institutions are adopting "platformification" to collaboratively attract customers and third-party service providers that fulfill customer demands. We look at this not just as a technology platform but also a business model that enables consumers and producers to easily connect. Platforms serve as magnets for consumers to evaluate and shop for financial services. Platforms also must make it easy for partners to plug in and scale. The key is to ensure the platform constantly remains modern and has an open architecture to interact with other partners, to bring the customer an enjoyable experience, and an offer that is personalized and contextually relevant.

CONSUMER ADOPTION. WHAT DO CUSTOMERS WANT AND EXPECT?

Today's consumers expect Financial Services providers to integrate their banking across their financial and lifestyle needs. There are many reasons why consumers select Fintech providers.

PERCEIVED USEFULNESS

This is an important factor related to consumers' perceptions about using the technology, how it improves their work efficiency, and how it fits into their daily lives. Perceived usefulness has a positive impact on consumers' adoption and intentions.

PERCEIVED EASE OF USE

While similar to perceived usefulness, this represents the degree to which consumers feel comfortable and make efforts to learn how to use Fintech services. Consumers want to know if the experience is better than the traditional banking experience and if it meets their needs. If users think Fintech services are convenient, friendly, and easy to use, they are more likely to adopt them.

BRAND IMAGE

Brand plays an important role and is an intangible asset with economic value. Consumers' image of a brand plays a role in establishing perceptions of quality, value, and satisfaction. A good brand image can generate trust and help build solid relationships with customers.

ATTITUDE

There is a strong correlation between consumers' judgments and tendencies about Fintech providers and their propensity to adopt new technologies. Fintech providers must keep that in mind as they market their services.

GOVERNMENT SUPPORT

Government has been one of the biggest drivers of Fintech adoption. It can increase the credibility and perceived reliability of products and services and improve the publicity of the application. In the U.K., the government has played a role in the definition of the technology (including PSD2 and open banking) and has provided financial backing of the infrastructure, thus making Fintech services more acceptable to potential customers.

TRUST

Because consumer data is involved in the provision of Fintech services, trust is very important. If there is a perception of risk, thus a lack of trust, that will negatively affect the adoption of new technology. These risks are associated with the use of personal data, transaction data, and other privacy information, and misuse can lead to serious consequences. The importance of trust can vary by product (i.e., borrowing vs. investing) based on consumers' sensitivity about the service.

CONSUMER ADOPTION TRENDS

Fintech adoption has nearly doubled over the past 18 months. Fintech providers are no longer small disruptors and are poised to become formidable competitors. There is a profound reckoning taking place in the Financial Services industry.

ADOPTION BY GEOGRAPHY

Fintech has achieved mass adoption in most markets. However, adoption rates vary by market. The presence of tech-literate consumers and markets that are underserved or unhappily served by traditional Financial Services providers affects geographic adoption. For example, China and India have the highest adoption rates. Much of their success is the result of tapping into the tech-literate, financially underserved populations that make up a large percentage of the population in emerging countries.

In other markets like the UK, there are regulatory factors that influence adoption. Government support in the UK helps Fintech initiatives with new licensing regulations and infrastructure developments such as open APIs.

Figure 1: Comparison of the top five markets with the highest Fintech adoption for each Fintech category.

	Money transfer and payments	Financial planning	Savings and investments	Borrowing	Insurance
1	China 83%	China 22%	China 58%	China 46%	India 47%
2	India 72%	Brazil 21%	India 39%	India 20%	UK 43%
3	Brazil 60%	India 20%	Brazil 29%	Brazil 15%	China 38%
4	Australia 59%	US 15%	US 27%	US 13%	South Africa 32%
5	UK 57%	Hong Kong 13%	Hong Kong 25%	Germany 12%	Germany 31%

Notes: The figures show the average percentage of respondents in each market who reported using one or more Fintech service in that category.
Source: E&Y Fintech Adoption Index 2017

Global investment in Fintech continues to rise. Mature areas of Fintech (payments and lending) are seeing increased investments and strong exits. Open banking, in particular, will see a lot of activity – both from traditional Financial Services providers looking to partner with Fintechs and from Fintechs using open banking to extend their value proposition.

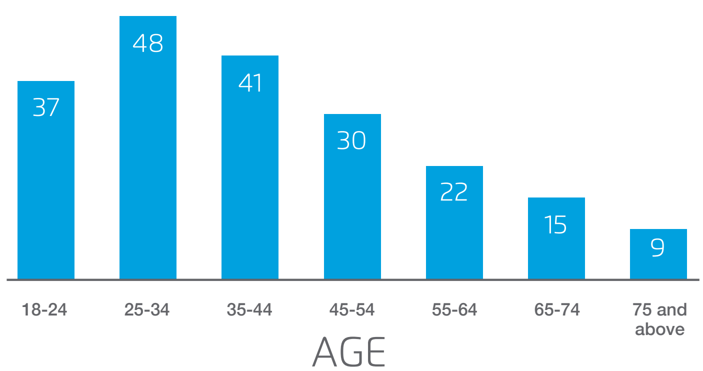
ADOPTION BY DEMOGRAPHICS

It is no surprise that use of Fintech products and services is higher among younger consumers, many of whom have not developed strong relationships with traditional providers and are also more tech savvy. This consumer segment has also adopted a digital-first approach in other areas of their lives (i.e. online shopping, ride sharing, music streaming). The combination of these factors increases adoption rates for this segment.

A stronger preference for traditional Financial Services can be a barrier to adoption by older consumers. Concerns with switching costs and friction also factor into their lack of interest in newer Fintech services.

While age may impact adoption of Fintech services, we believe all ages share concerns on matters such as data security and privacy. And, some services (like comparison sites) are popular across multiple demographics.

Figure 2: Analysis of Fintech adoption across age brackets.



Notes: The figures show average rate of Fintech adoption across the age demographics in our surveyed population.
Source: E&Y Fintech Adoption Index 2017

As Fintech brands and services become better known, we believe adoption rates will accelerate. We also anticipate that Fintech users will adopt more products and services as their satisfaction with the ones they use increases. As Fintech firms expand and diversify their offerings, that will drive higher usage. Products that resonate with early adopters will also generate recommendations, supporting growth through word of mouth.

KEY FACTORS FOR FINTECH GROWTH

While consumers have been the real winners as Fintech products and services have entered the market, not all Fintech companies will be winners. Some will demonstrate staying power, while others will fail to find their place in the market. As Fintech companies reach their next phase of growth, they will face several challenges.

LEVERAGING DATA

Fintech companies must understand the importance of data. The ability to access and make sense of data powers Fintech's acceleration as an industry. Startups are giving the incumbents a run for their money, not because they're generating or accessing more data, but because they're looking at it differently and using it in new ways. When a Fintech company gets clarity around data, makes sense of it, organizes and cleanses it, and combines traditional and non-traditional sources in new ways, it can out-maneuver and out-innovate incumbents.

SCALABLE TECHNOLOGY

To continue to grow, Fintech entrepreneurs also must maintain their operational health. Innovation will remain an important part of the mix, but it is equally important to have the technology and processes in place that enable companies to scale and ensure they continue to provide the experience customers have come to expect. This includes business continuity, regulatory compliance, data security, and the ability to work with other vendors or satisfy government regulators.

EXTEND REACH

The companies that survive must increase consumers' awareness of their products and services to achieve broader adoption. To accelerate market advantage, they must generate momentum through market visibility. Relationships and trust play critical roles in adoption, and endorsements from "champions" is vital – in both online and offline social networks. It is also important to build a distinct identity, because the market is getting crowded. Consumers have a lot of choices, and there is some confusion in the market.

Successful Fintech providers will also need to create frequent interactions with customers, above and beyond today's needs-based transactions, to strengthen customer relationships. Today's customers want a Financial Services provider to be clairvoyant and anticipate their needs. Banking is taking more of a life stage/life event-based focus, and Fintechs must be able to engage with customers in a more personal manner as their needs change. This will enable Fintechs to play a more central role in their customers' lives.

ACXIOM PARTNERSHIP WITH THE FINTECH INDUSTRY

There is no doubt that Fintech adoption is growing. But to sustain, Fintechs must accelerate the growth of their customer base and scale their operations. They also must continuously refine their value proposition and modify their strategies.

ACXIOM CAPABILITIES
EMBEDDED ANALYTICS

Investments in data and analytics should be at the heart of a Fintech's growth strategy. New advancements are being made every day in advanced analytics with machine learning and artificial intelligence. These embedded analytics enable real-time decisioning that generates personalized and contextual experiences across financial and lifestyle needs.

Acxiom delivers the data foundation that provides rapid delivery of actionable data combined with pre-integrated toolsets, including R, H2O, Python, SPSS, SAS, or integration with open-source tools, enabling better and faster analytics and business impact. As machine learning and artificial intelligence are adapted to drive consumer engagement and experiences, the underlying data environment that fuels these capabilities will become increasingly important. In many instances collecting, cleansing, and enhancing the data is commonly viewed as 80% of the effort in a machine learning initiative.

ACXIOM CAPABILITIES
MODERN TECHNOLOGY AND OPERATIONAL SUPPORT

Success in the new era of Financial Services will rely on emerging technologies like cloud computing. The ability to respond to changing technology developments and integration of the complete marketing technology ecosystem is critical to optimize performance and lower operational cost.

The cloud is empowering Fintech companies to become more flexible and agile. Unlike incumbent firms that struggle with legacy systems, Fintechs can nimbly ideate, develop, and test new solutions with cloud support, which makes iterative development and on-the-go customer feedback manageable. Lower cost is another advantage Fintechs can leverage to generate savings for customers, further adding to the positive experience.

Given the importance of reach, it is critical that Fintechs can scale their operations without sacrificing service quality. Having a scalable and flexible operational environment is important, as customer expect a high level of reliability.

In addition to having a secure and highly reliable operating environment, Fintechs must also operate with high standards for data privacy and security. Diligence in consumer privacy and security is and will continue to be paramount. New demands from government agencies and consumer advocacy groups must be addressed in all areas of operations. Preserving brand integrity and delivering a positive customer experience is a top priority for every Fintech. Acxiom supports its clients with the ability to manage large sets of data ethically, securely, within legal boundaries, and in a way that protects consumers.

ACXIOM CAPABILITIES
INDUSTRY BEST PRACTICES

With the support of Acxiom, Fintech companies can deploy long-standing industry best practices despite the fact they've been around for only a few years. Acxiom has embedded established best practices into its operational solutions to help Fintech companies effectively compete. In addition to supporting highly complex and scalable data environments, we also offer specialized expertise around marketing best practices that align with our solutions. Below are just a few areas where we provide guidance and support.

ORGANIZING OMNICHANNEL MARKETING DATA

- Evaluation of current data sources and recommendation of additional data sources based on industry best practices
- Identification and organization of data sources for targeting, segmentation, modeling, measurement, reporting and personalization
- Data governance and privacy best practices

MARKETING SEGMENTATION AND TARGETING

- Establishing segmentation/targeting and recommendation of audiences and targeting
- Alignment of segmentation and targeting with back-end measurement to ensure desired key performance indicators (KPIs) can be measured
- Establishing data enhancement options to better understand consumer preferences that can drive targeting and channel recommendations

MARKETING PERSONALIZATION

- Evaluation of existing data and identify sources that can drive personalization
- Alignment of personalization attributes to marketing segments and campaigns
- Creating and testing a measurement plan to evaluate personalization effectiveness

MARKETING MEASUREMENT

- Evaluation of current marketing campaign KPIs and recommendation of incremental or adjusted KPIs based on industry best practices
- Alignment of campaign KPIs to current measurement process, identifying any gaps and recommendations to resolve

ACXIOM CAPABILITIES

FAST IMPLEMENTATION

Acxiom has extensive experience implementing advanced solutions for Financial Services clients. Our implementation process has been fine-tuned over our 50-year history, providing a flexible, fast and efficient experience. Implementation can be completed in an average of 90-120 days, so we can achieve the fast speed-to-market that Fintechs expect.

WILL THE FINTECH BUBBLE BURST?

The answer is no. Re-architecting Financial Services with waves of technology innovation and business models will continue. But Fintechs will need to take important steps to remain relevant. Several business models may emerge:

DIGITAL CATEGORY KILLER: Companies that focus on doing one thing very well. This company provides a best-in-class branded value proposition, technology, and services features (ease of use, rich functionality, value-added services).

UTILITY FACTORY: Companies that provide access to their infrastructure and other assets, such as a white-labeled product, to third parties.

DIGITAL RELATIONSHIP MANAGER: Vertically integrated bank business model (balance sheet, product manufacturing, and distribution) to serve a wide range of customer needs and segments. These firms will leverage open banking/APIs and bank-owned solutions and infrastructure.

OPEN PLATFORMS: These will be the marketplaces where producers and consumers connect and exchange value. The platforms serve as a magnet, attracting the most desirable consumers and providing a range of products and services.

CONCLUSION

Whatever models emerge, we believe Fintechs represent a threat to incumbent firms' market share, revenue, and strategic models. However, they also create opportunities for incumbent firms to differentiate themselves and become more competitive. In the future, we anticipate seeing more joint ventures, acquisitions, and investments in Fintech firms. Incumbent banks can learn from and acquire Fintechs to enhance existing offerings, provide new services, address customer needs, and improve operational efficiency. All financial institutions will need to evolve – incumbents, digital banks, and neobanks.

ANSWERING THE MARKETING PERFORMANCE QUESTION

A PERSPECTIVE ON IMPORTANT TECHNIQUES TO MEASURING MARKETING PERFORMANCE

By Scott Woepke

Financial Services companies are collecting more data than ever, and this has always been a very data-intensive industry. This proliferation of data is transforming the way Financial Services companies operate and compete. It is also having a significant impact on marketing.

As Financial Services leaders realize that more trusted, connected and intelligent data contributes to their competitive position and survival, they now see data as an essential asset. Despite many advancements that help Financial Services companies target the most appropriate consumers, there are many challenges that are raising the degree of difficulty with marketing performance. One of the top priorities for Financial Services marketers should be mastering the ability to measure the results of their marketing efforts.

Whether you are an established Financial Services company seeking to win new customers or a fintech start-up focused on establishing awareness and customer growth, marketing is critical to generating stronger business performance. In recent years, marketing and branding have become a larger part of banks' strategies, because marketing, not branch or ATM share, is playing a larger role in driving customer acquisition. The level of investment in marketing has never been higher. Yet, many Financial Services companies are still asking themselves,

Am I spending my marketing dollars efficiently?

How should I plan for next year?

How am I performing compared to my peers?

Allocation of marketing dollars is an important factor in marketing performance, making spend allocation imperative. The practice of effective measurement often lags behind customer acquisition marketing strategies and capabilities. The new focus is on the ability to deliver accurate, people-based unified marketing measurement across online and offline channels to maximize media spend, creative rotation, brand impact, account openings and, ultimately, marketing ROI.

NEW MARKETING TRENDS

TREND 1: MARKETING MEASUREMENT HAS BECOME TOP PRIORITY

So why has measurement suddenly become marketers' chief concern? Because of the shift of marketing spend into digital. For a long time, digital measurement was somewhat straightforward. But, mobile changed that. Measurement today is more complicated, more nuanced, and more important than ever.

TREND 2: DIGITAL AD SPEND NOW EXCEEDS TV AD SPEND

In 2016, for the first time, U.S. digital ad spend exceeded TV ad spend, and this gap is expected to widen significantly in coming years[1]. As marketers begin to spend more of their budget in digital, they come under increasing pressure to justify the spending and quantify its impact. More than ever, they need to take into consideration other touch points beyond the one that immediately preceded the conversion.

TREND 3: CONSUMER SHIFT TO MOBILE AND DIGITAL MEDIA

Financial Services customers want banking to perform in the palm of their hand on their mobile device – anytime, anywhere. This has also become their preferred way to consume content. eMarketer reports adults in the U.S. are spending nearly half of their media time on digital media (47.2%) [2]. On average, consumers spend nearly six hours each day with digital media, compared to four hours with television. Financial Services companies are now adapting to this important shift in behavior and channel preferences.

TREND 4: CHALLENGES OF MEASUREMENT

Because digital media generates a lot of data, it is assumed it is highly measurable, and it is, taken one medium at a time. However, due to the fragmentation of technologies and platforms, digital introduces complexities that marketers must understand to achieve accurate results. In contrast, offline channels may provide less user engagement data, but in many cases personally identifiable information (PII) enhances targeting precision due to a clearer understanding of the consumer identity. From a campaign measurement perspective, the following table summarizes some of the challenges marketers must address.

Given these challenges, what actions do Financial Services marketers need to take?

DIGITAL MEDIA

Channel Type	Description	Measurement Challenges
Display Ad (Cookie or Mobile ID based, anonymous user)	Advertising channels (e.g., display and video) that leverage anonymous identifiers, including cookies or mobile IDs, to serve ads to consumers on their PC, smartphone, tablet, or connected device.	• Cookies (see glossary) are volatile because they expire and consumers may delete them. Mobile IDs (see glossary) can also be reset by the consumer. • Even if you match a consumer to a cookie, there is rarely a unique 1:1 relationship. Most consumers have multiple cookies, because they use multiple devices and browsers. Shared device usage can associate multiple consumers with a single cookie. • Anonymous identifiers used for targeting individuals lead to challenges with identity resolution (see glossary) for achieving closed-loop campaign measurement. • For mobile devices that use Apple iOS, third party advertising cookies are blocked by the Safari browser.
Display Ad (People-based, known user)	Advertising channels (e.g., social display, authenticated video) that use PII to serve ads to consumers on their computer, smartphone, tablet, or connected device. Publishers that use PII include social networks and publishers where the user is authenticated to the service. As a subset of people-based, household-based channels like Addressable TV can serve ads to specific households with supported set-top boxes.	• Some people-based ad networks are criticized for "grading their own homework" since they do not support third-party measurement tags to enable verification of what is reported to marketers. • For most PII-based publishers, it's not permissible to co-mingle ad exposure data with any other publisher's exposure data to quantify unduplicated reach and truly understand comparable publisher performance — you can only look at aggregated campaign data side by side.
Search	Search-based advertising matches keywords entered by the consumer to relevant ads for products and services.	• Marketers do not receive consumer-level ad "exposure" data to understand reach as search engines don't use pixels for impression tracking and report on clicks.
Email	Messages and offers delivered to consumers with an email address.	• Spam filters can prevent delivery to intended recipients. • Large file sizes can distort open rate data. • Offline reading may not register in open rates.

OFFLINE MEDIA

Channel Type	Description	Measurement Challenges
Direct Mail	Often (but, not always) unsolicited advertising messages sent to prospects and customers using PII, such as name and postal street address.	• No exposure or impression data into who sees or opens mail in household. • Mailers with coupons or promo codes may be shared with friends or other family members distorting response rates. • Postal service may deliver to the wrong address. • In most cases, you send mail to a household, even if it's addressed to an individual.
Linear TV	A video ad (typically 30 seconds duration) that airs during designated portions of television broadcasts (i.e., one ad exposed to many viewers). National TV audiences are measured using Nielsen's panel-based TV ratings, which is accredited by the Media Ratings Council (MRC).	• Measurement has traditionally been based on a panel or sample (Nielsen ratings) to generate aggregated, syndicated research. Because of this methodology, advertisers lack the flexibility to define true target audience segments and understand specific households that have actually viewed their ads. • Due to the small panel size (< 50K people), you will receive limited audience insights and post-campaign conversion measurement may not be possible due to the lack of scale.
Linear Radio	Audio ad that airs during designated portions of radio broadcasts. Radio audiences are measured by Nielsen.	• Listenership not measurable at the individual level, typically only get insights at a regional level. • Sample only reflects small fraction of total population and is not random from a statistical perspective.
Print (magazines/ newspapers)	Static ads that are included in print media. Publications that have a known subscriber base can presume a portion of their readership to be "known" based on the evidence of being a paid subscriber.	• Readership is typically not measurable at the individual level since content may be read by multiple individuals within household.

SET THE RIGHT METRICS

Marketing metrics serve as important way to assess and communicate marketing performance, yet many marketers struggle to determine which metrics are the right ones to deploy. A key component in marketing success has become the ability to demonstrate the impact of marketing initiatives on key business outcomes. Metrics that are perceived as objective, relevant and numerically credible can be a powerful tool, in particular when dealing with financially oriented senior management.

Some Financial Services providers are focused only on their efficiency of spend (e.g. Cost Per Thousand, Cost Per Click) rather than focusing on more important business metrics (e.g. cost per new-to-bank accounts). Each Financial Services company has a different starting position and may even need to measure performance differently at a market level. Factors such as branch share, competitive intensity, pricing strategies, and overall awareness can become important in understanding true marketing performance.

USE CLOSED-LOOP MEASUREMENT TO UNDERSTAND THE IMPACT OF A SPECIFIC MARKETING CAMPAIGN IN DRIVING CONSUMER RESPONSE AND CONVERSION

The ability to connect digital and offline transactional data underpins closed-loop measurement of marketing impact. We live in a world where many consumers may initially engage with a brand via digital channels; however, they may then open their account in a branch or via a call center. This can make it challenging to connect an offline transaction to related digital touch points. Further complicating the situation, there can be siloed agency or platform (social, direct mail, mass media) reports that do not generate a central source of truth.

Closed-loop measurement requires access to a wide range of data and accurate identity resolution with the use of common identifiers for consumers as they interact through digital and offline channels. Once marketers set the foundation for effective closed-loop measurement they can shift from only measuring past performance to providing a quantitative basis needed for future planning and investment decisions.

SET-UP "TEST-AND-CONTROL" EXPERIMENTS TO ASSESS WHETHER MARKETING TRULY DROVE THE DECISION TO PURCHASEE

Experimental design is a proven methodology that helps Financial Services companies answer questions like "Did my marketing campaign drive new account openings, or would consumers have opened the accounts anyway?" Financial Services marketers should use test-and-control experiments for digital and offline marketing campaigns to objectively measure the lift in new business associated with their marketing programs. This methodology requires a defined "test" group of campaign-exposed individuals and a "control" group of non-exposed individuals. The selection needs to ensure an "apples to apples" comparison between the two groups so they are statistically identical and isolates the effect of campaign exposure on conversion. Furthermore, marketers should ensure these groups are large enough to provide statistical significance.

It is our observation that in many cases, experimental design is not in place and there is no clean control. Without this type of testing, Financial Services companies are not able to truly understand the performance of their marketing and unable to optimize their marketing effectiveness.

MINIMIZE "AUDIENCE DROPOFF" BY WORKING WITH DEMAND-SIDE PLATFORMS (DSPS) AND AD NETWORKS WITH HIGHER MATCH RATES

As marketers enter a more advanced world of digital marketing they depend more on new platforms and partners where data flows and are utilized by DSPs and ad networks. Understanding the nuances of data and matching technologies is very important, as it has an impact on match rates. Marketers should review match rates from ad networks or platforms prior to starting a campaign and request their definitions to evaluate each network properly. By doing so, marketers can plan for and neutralize exposure bias, which help them reach their target audience and mitigate the biases generated by audience drop-off due to match rate variations.

AUDIT YOUR DATA AND ANALYTICS TO ENSURE THE ACCURACY OF YOUR ANALYSIS

More data is not always the answer. The lack of good input data will lead to poor conclusions. Data is available at different levels of granularity (i.e. individual vs. household), which can impact a true comparative analysis. As a result, it is important to collect and audit all data across touch points so you have the necessary information to answer measurement and attribution questions.

For many Financial Services companies, this can be a complex process as data can exist across multiple lines of business, reports from agencies, social media platforms, and other sources. Lack of comprehensive data makes it difficult to answer performance questions. Additionally, the lack of readily accessible data inhibits the development of timely marketing execution and planning. Creating an asset mindset regarding data makes it easier to care for over the long haul.

Many changes are taking place with the rise of machine learning and artificial intelligence. These developments create efficiency and open up new opportunities with prediction and optimization. While there are many advancements, marketing analytics should employ transparency to support auditors and internal compliance.

SHARPEN MARKETING PERFORMANCE WITH ATTRIBUTION ANALYSIS

Once campaign performance is understood, Financial Services companies should pursue attribution analysis. Attribution focuses on understanding the impact of omnichannel campaigns over a longer period of time and assigning credit to the channels or campaigns that "touched" consumers along their journey (resulting in conversion events). But not all attribution approaches deliver the same results. Attribution models include:

First touch attribution. Credit goes to the first channel a consumer engaged.

Last touch attribution. Credits the last campaign a lead engaged with prior to converting.

Multi-touch attribution (rules based). Shares credit across all of the touches of the buyer's journey, based on a set of pre-defined rules. This approach often is not robust enough, because rules can be modified to give more credit to channels that marketing decision makers favor.

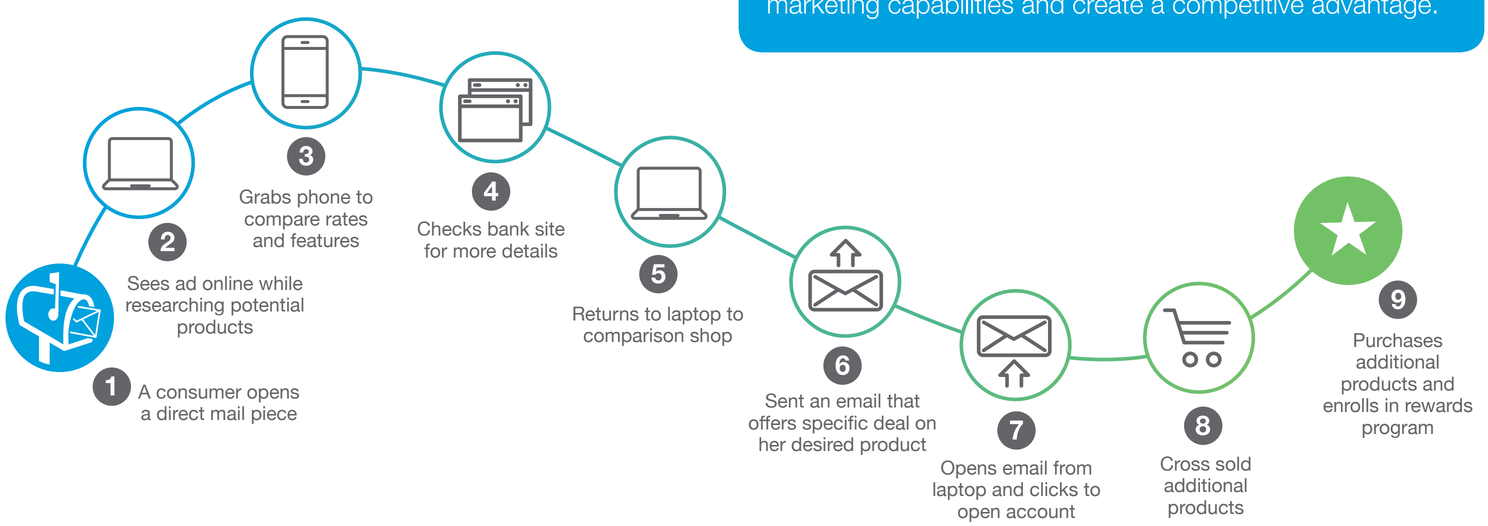
Multi-touch attribution (algorithmic). Splits credit among all the touches along the buyer's journey, using an algorithmic approach that is based on a statistical model. Using optimization routines this approach can assess the true contribution of each channel's impact in driving conversions.

CONCLUSION

The goal is straightforward; however, achieving the measurement objective is anything but simple.

Mastering measurement has become an urgent imperative as it evolves into more than a tool for simply understanding campaign performance. More than ever, measurement shapes strategy and impacts budget allocations.

Financial Services marketers must prioritize areas for investment and growth to remain competitive and achieve expected returns on marketing investment. Given the high stakes and competitive pressure in the market it is imperative to maximize every dollar in the budget. By following the strategies and actions outlined in this article, Financial Services companies can begin to advance their marketing capabilities and create a competitive advantage.



1 "US Digital Ad Spending to Surpass TV this Year: Digital will represent 37% of US total media ad spending," eMarketer, Sept 2016 https://www.emarketer.com/Article/US-Digital-Ad-Spending-Surpass-TV-this-Year/1014469

2 "US Time Spent with Media: eMarketer's Updated Estimates and Forecast for 2013–2018," eMarketer, Nov 2016 https://www.emarketer.com/Report/US-Time-Spent-with-Media-eMarketers-Updated-Estimates-Forecast-20132018/2001933

TIME TO BUILD A NATIONAL DATA BROKER REGISTRY

A FEDERAL CLEARING HOUSE WOULD HELP SEPARATE THE GOOD AND BAD ACTORS WHO DEAL IN DATA.

By Jordan Abbott

Privacy-related legislation is evolving on a global level, at an unprecedented pace. The European Union's General Data Protection Regulation, which became effective in May 2018, has touched off similar privacy legislation in the U.S. and many other countries, including developing ones.

For the first time since its digitization, the advertising industry's responsibility toward consumer privacy is under immense legislative review. The California Consumer Privacy Act (CCPA) represents the first generation of generalized, all-encompassing consumer privacy legislation in the United States. The arrival of CCPA sent the first shockwave through the advertising industry, and even a cursory glance at upcoming legislation indicates more.

CCPA is designed to provide consumers with transparency around the data collection, use, and disclosure practices that businesses employ with respect to personal information. CCPA imparts many requirements on businesses, but the overarching premise of CCPA is to provide consumers with transparency. As such, one major requirement of businesses under CCPA is to provide a conspicuous, consumer-facing privacy notice. The notice must contain a description of the personal information a business collects and how that information will be used; contact information the consumer can utilize to learn about information collection and disclosure; and for those businesses that sell personal information to third parties, a prominent "do not sell my personal information" link on the business's homepage.

CCPA also requires businesses to provide consumers with access to the personal information the business has collected and maintains. That is, consumers have the right to request, and businesses must provide, the categories and specific pieces of personal information collected by the business. CCPA also outlines specific mechanisms businesses must implement in order to provide consumers with access to their data, including a toll-free telephone number and a website.

There are a number of exemptions and exceptions in the CCPA that could blunt the law's impact on financial institutions; chief among these, is GLB. Financial institutions should be able to rely on GLB to exempt most of the data under their control from the scope of CCPA. However, GLB will not apply to all data. Employee data and data collected about prospects are likely not covered by GLB.

Currently, federal-level individual privacy protections in the United States are found only in larger, industry-specific consumer protection acts such as HIPAA, GLBA, COPPA, and FCRA. In response to the lack of generalized individual privacy protections at the federal level, many state

legislatures are proposing bold consumer privacy bills, each an attempt to fill the gap in legislation.

For example, the proposed New York Privacy Act, which was introduced earlier this year, introduced the topic of a "data fiduciary." Although not concisely defined within the bill, a data fiduciary would likely be a person who held a heightened obligation to safeguard both the interests and the data of another person. Theoretically, this would include a broad range of businesses, including data brokers and financial institutions. Under general legal principles, these data fiduciaries would then hold a duty to secure the personal data of an individual against a privacy risk, which may include financial or psychological harm (e.g., anxiety, embarrassment, and fear); reputational harm; or any adverse consequence that affects an individual's private life.

State legislatures aren't alone in attempting to fill the legislative gap. For years, self-regulatory organizations, such as the Digital Advertising Alliance, the Network Advertising Initiative and others, have released privacy related guidelines and industry best practices. Additionally, several organizations, like the Business Roundtable, the Privacy for America Coalition, and the US Chamber of Commerce, have drafted privacy-related model legislation to be presented at the federal level.

Of primary concern to legislators and regulators is the digital advertising ecosystem. In 2018, the U.S. digital advertising market saw a revenue of $108 billion while the EU saw €55.1 billion in revenue. Despite its benefit and value, the future of the global digital advertising ecosystem is uncertain. The inherent nature of digital advertising arguably precludes transparency into its technological networks. This raises alarm to consumers and legislators alike. As such, many regulators have focused their efforts on transforming this ecosystem, through education and legislation, to provide heightened consumer transparency. Most notably, real-time bidding, an important facet of programmatic advertising and a key foundation of the digital ecosystem, was harshly criticized, recently, as illegal by the U.K. Information Commissioner. The Information Commissioner's Office went on to express skepticism that real-time bidding could ever be compliant with GDPR. Nevertheless, the ICO gave Industry six months to try to come up with a new, compliant process.

Consumer privacy is an emerging global trend with CCPA representing the United States' first exposure to the growing pains of generalized consumer privacy legislation. While a majority of the information financial institutions hold will be exempt from CCPA due to overarching GLBA obligations, specific data sets may not be exempt. There are many uncertainties in the future global data advertising, however, one thing is certain we can expect a dynamic and complex legislative atmosphere ultimately leading to precise and defined privacy standards.

THE IMPACT OF THE PLATFORM ECONOMY ON FINANCIAL SERVICES MARKETING

By: Ron Shevlin

Acxiom commissioned research by Cornerstone Advisors

THE RISE OF THE PLATFORM ECONOMY

In *The Rise of the Platform Economy*, Martin Kenney and John Zysman wrote:

> "A digital platform economy is emerging. Companies such as Amazon, Etsy, Facebook, Google, Salesforce, and Uber are creating online structures that enable a wide range of human activities. This opens the way for radical changes in how we work, socialize, create value in the economy, and compete for the resulting profits. Their effects are distinct and identifiable, though certainly not the only part of the rapidly reorganizing global economy."

These broad, sweeping statements beg the question: What is a platform?

In a financial services technology context, the term platform has been around for a long time. Mention the word "platform" to financial services executives, and they'll think of their online banking platform, their mobile banking platform, their loan origination platform, etc.

In a business model context, however, there are many new and divergent definitions. Here's our favorite:

> "A platform is a plug-and-play business model that allows multiple participants (producers and consumers) to connect to it, interact with each other and create and exchange value." [1]

There are three important components of this definition:

- Business model. First and foremost, a platform is a type of business model.
- Plug-and-play. A platform must enable participants to easily engage—and disengage (which partnerships typically don't).
- Create and exchange value. One plus one has to equal more than two, or there's no need for the platform.

To successfully execute a platform strategy, a company must:

1. **Become a magnet.** Without the ability to attract a meaningful number of the "right" participants, a platform cannot succeed. Simply having a lot of producers and consumers is no guarantee of success. The platform must attract the right producers (those with the most desirable products and services) and the right consumers (those with whom the producers in the platform want to do business).
2. **Act as a matchmaker.** A platform requires a mechanism for matching consumers to the right producers, and for enabling producers to reach the right consumers who come to the platform. At its most basic level, a search engine can be a matchmaking mechanism.
3. **Offer a toolkit.** The toolkit is what enables producers (and consumers) to easily plug-and-play. This is why application programming interfaces (APIs) are so critical to firms pursuing platform strategies.

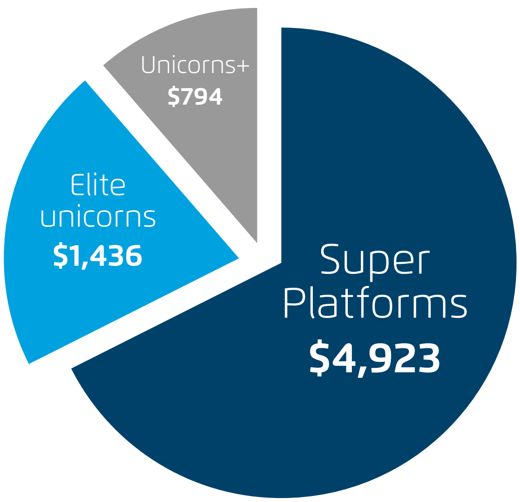
SIZING THE PLATFORM ECONOMY

Estimates of the size of the platform economy vary widely, due, in no small part, to the differing definitions of a platform. In a 2016 study, researchers Peter Evans and Annabelle Gawer estimated the market size of the global platform economy at roughly $4.3 trillion. Their study, however, noted the challenge of measuring the market's size "due to a lack of reliable data, hazy definitions of scope, the wide variety of platform types, and the availability of many 'free' platform services." [2]

More recently, a KPMG study upped that estimate to more than $7 trillion (Figure 1). The study categorized 242 companies based on market valuation: Super platforms (>$250,000 million); Elite unicorns (>$25,000 million); Unicorn+ (>$1,000 million); and Scale-up (>$100 million).

FIGURE 1 : Market Size of the Global Platform Economy

MARKET SIZE OF THE GLOBAL PLATFORM ECONOMY (US$ IN BILLIONS)

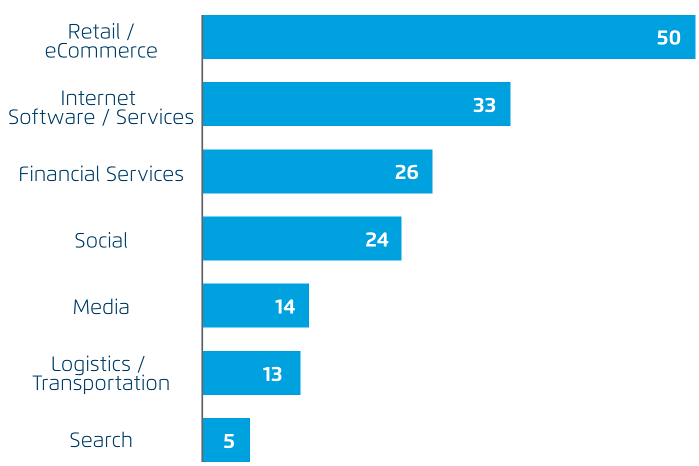


Source: Consultancy.org, KPMG

While the retail industry, with 50, accounts for the most platforms to date, the financial services industry is well-represented with 26 platforms, according to KPMG's analysis (Figure 2).

FIGURE 2 : Platforms by Industry

OF PLATFORMS WITH >$100 MILLION VALUE BY INDUSTRY



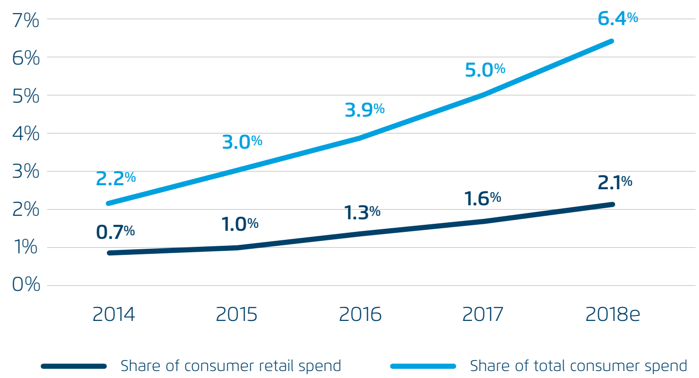
Source: Consultancy.org, KPMG

CONSUMERS' USE OF PLATFORMS

No one needs to be told that Amazon is a force in the retail market today. What might be less obvious is the extent to which the platform influences retail spend. According to pymnts.com, U.S. consumers spend 6.4% of their total annual retail expenditures—and 2% of their total spending—on the platform (Figure 3).[3]

FIGURE 3 : Consumer Spending at Amazon

AMAZON SHARE OF CONSUMER SPENDING

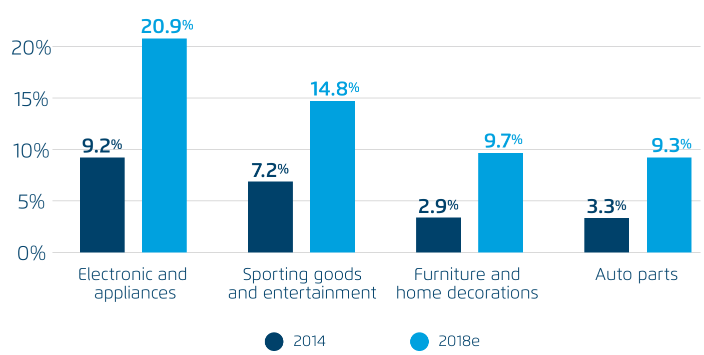


Source: pymnts.com

Amazon's market share of specific retail categories like electronics/appliances and furniture/home decorations increased dramatically between 2014 and 2018 (Figure 4). This is particularly important to financial services firms because of the point-of-sale financing opportunities in these categories.

FIGURE 4: Amazon Market Share of U.S. Consumer Retail, 2014 vs. 2018

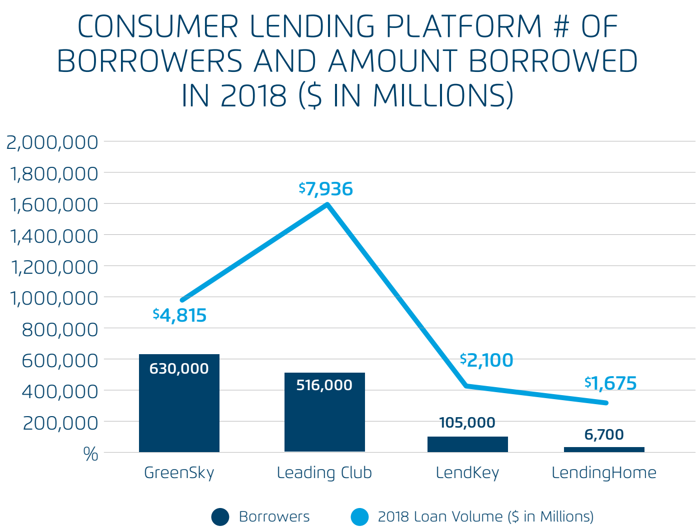
AMAZON MARKET SHARE OF U.S. CONSUMER RETAIL



Source: pymnts.com

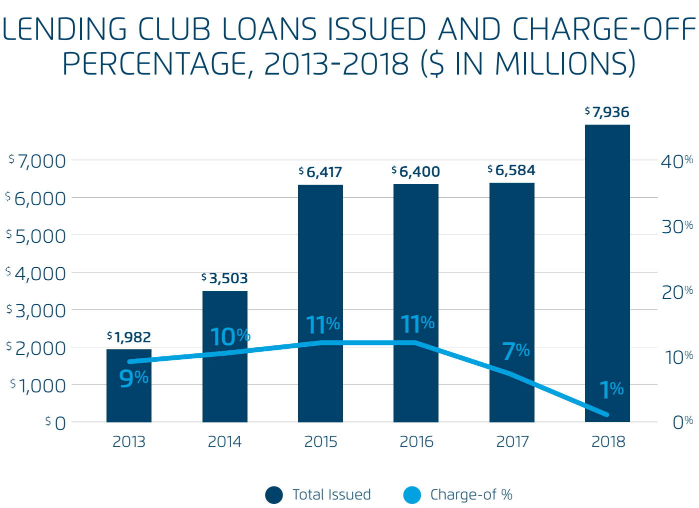
U.S.-based financial services platforms across a range of lending products are also enjoying strong growth with consumers (Figure 5). Lending Club's loan volume grew 21% between 2017 and 2018, as the charge-off percentage declined from 7% to 1%, down from a 2015-2016 high of 11% (Figure 6). In 2018, banks accounted for 41% of Lending Club's loan originations.

FIGURE 5 : Financial Services Platforms Loan Volume, 2018



Source: Cornerstone Advisors

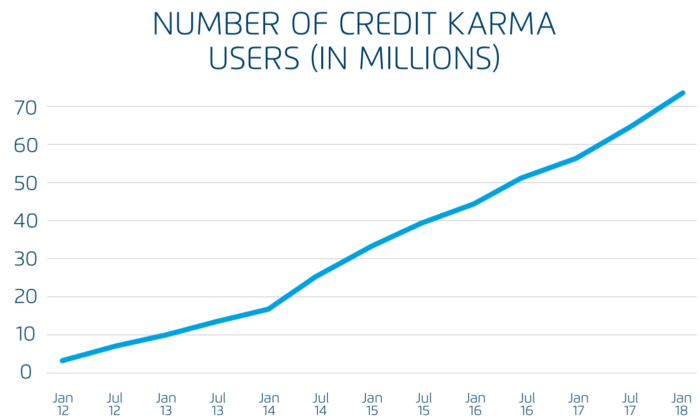
FIGURE 6: Lending Club Loans Issued And Charge-Off Percentage, 2013-2018



Source: Lending Club

On the credit side, Credit Karma continues to enjoy strong user growth, growing from 4 million users at the beginning of January 2012 to 80 million users in mid-2018 (Figure 7).

FIGURE 7 : Credit Karma Customer Growth, 2012-2018



Source: Credit Karma, Disruptive Finance, Cornerstone Advisors

Just as important as the user growth is the number—and demographics—of consumers who are aware of the platforms and would consider using them for their future needs. Relative to other consumers, older Millennials (in their 30s) and Gen Xers are more likely to use and to consider platforms for their borrowing needs (Table A).

TABLE A: Awareness, Use And Consideration Of Selected Financial Services Platforms

	Have you heard of this firm and would you consider it if you were in the market for a loan?	Younger Millennials (21-29)	Older Millennials (30-38)	Gen Xers (39-53)	Boomers (54-72)
GreenSky	Not aware of this company	82%	72%	78%	94%
	Aware, haven't borrowed, WOULD consider	5%	9%	9%	2%
	Have borrowed from this company	0.69%	0.57%	0.27%	0.09%
Lending Club	Not aware of this company	65%	57%	61%	70%
	Aware, haven't borrowed, WOULD consider	13%	27%	22%	13%
	Have borrowed from this company	0.28%	0.63%	0.63%	0.48%
Lending Home	Not aware of this company	78%	64%	68%	85%
	Aware, haven't borrowed, WOULD consider	12%	20%	19%	5%
	Have borrowed from this company	0.01%	0.00%	0.00%	0.00%
LendKey	Not aware of this company	86%	70%	76%	95%
	Aware, haven't borrowed, WOULD consider	3%	8%	7%	1%
	Have borrowed from this company	0.0%	0.1%	0.1%	0.0%

Source: Q2/Cornerstone Advisors survey of 2,436 US consumers, Q3 2018

Use of the platforms shouldn't come as a surprise. Emerging lending platform Uplift surveyed its users and asked them what they liked about shopping for a loan on the platform. More than half of respondents cited the platform's ease of use and commented that "it was a quick and very easy process" and "it was fast and easy to understand." Even though half of the survey respondents did not get a loan through the Uplift platform, just 5% said they would not use the platform if they were in the market for a loan in the future.[4]

AREN'T TODAY'S BANKS PLATFORMS?

We've heard bankers tell us that their bank is already a platform. Well, we know platforms, and your bank, sir or madam, is no platform. Here's why:

- **Today's banks are consumer magnets, not producer magnets.** Banks do a fairly good job of attracting consumers. But there is practically no focus on attracting other producers, other than the one-off partnerships that a bank pursues.
- **Today's banks only match consumers to their own products or services.** The key to successful matchmaking on a platform is matching a consumer to one (or more) of a number of providers. Banks match consumers with just one provider's products—the bank's. If they even do that.
- **Today's banks don't have a toolkit.** Banks have a mixed track record of integrating the products and services of the firms with which they develop partnerships, let alone providing the ability to plug-and-play. A few large Institutions, however, have launched developer exchanges or API stores to accelerate the building of a platform-like toolkit (Table A).

Should banks become platforms? There are some proponents of that strategy. An American Banker article from 2014 titled *Amazon Becomes Retail Bank Role Model* posited:

> "Amazon has revolutionized everything from publishing to online shopping. Can it save retail banking? Bank execs repeatedly invoke Amazon as an example of what they aspire to become. One said, 'Amazon was conceived around the use of data and the customer experience.' Another called Amazon 'the most visible example of using data to customize a customer experience.' Another called the Amazon model a possible 'savior for the industry.'"

More recent developments have shifted the focus among the banking industry from "Amazon as a model for banks" to "Amazon as a threat to banks," although a number of observers have pointed out the partnership opportunities. All of this begs the question: Are banks and Amazon (and platforms, in general) friends or foes?

The answer is "neither."

FINANCIAL SERVICES PROVIDERS AND PLATFORMS: FRIENDS OR FOES?

Amazon may make great use of data and deliver a superior customer experience. But that's not what Amazon "is." What Amazon is is one of the world's largest distribution systems.

The fundamental difference between Amazon and banks is not the use of data or the customer experience. Banks could improve their use of data and the customer experience, and they still wouldn't be Amazon.

The difference is that Amazon is a platform, which means: Amazon does not care what you buy, as long as you buy it from Amazon.

That can't be said about banks. Banks want consumers to buy their products and services and don't care where consumers buy those products and services (although the overwhelming majority of those products are purchased directly from the bank).

Amazon's success—and the success of any platform-based business—is predicated on aggregating as many providers as it can, because the more providers it attracts, the more consumers it attracts. A true platform wouldn't limit itself to offering products and services from just one bank provider. While that's certainly in the bank's best interest, it's not in the platform's best interest.

FINANCIAL SERVICES PROVIDERS AS PLATFORM CUSTOMERS

Financial services firms represent a huge opportunity to Amazon as customers—not competitors or partners. By offering checking accounts from various banks on its platform, for example, Amazon could establish opportunities to provide marketing and technology services to banks that could earn it billions of dollars in revenue. Other platforms are pursuing these opportunities, as well. For example:

- **Credit Karma.** The acquisition of Approved, a mortgage platform servicing banks and mortgage brokers, builds on the mortgage brokerage services Credit Karma has offered for some time now and follows on the firm's acquisition of chatbot app Penny in March 2018. With an advice tool to guide Credit Karma members to the right mortgage, the Approved acquisition helps speed up the process—for both borrowers and lenders.
- **Kabbage.** The small business lending marketplace has repositioned itself as a platform providing automated decisioning, an API developer toolkit, and integration with a variety of data sources, including Amazon, Intuit, PayPal and Square.
- **LendKey.** LendKey's student loan platform goes beyond matching borrowers and lenders to helping financial institutions with demand generation, online decisioning, loan origination, customer service, compliance and proprietary balance sheet management.
- **LoanStar Technologies.** LoanStar Technologies' MerchantLinQ platform enables banks, credit unions and other lenders to create point-of-sale consumer loans in a range of product areas including home improvement, elective medical, renewable energy and consumer durables.
- **Vyze.** The firm's point of differentiation is a cloud-based marketplace of lenders that customizes point-of-sale loan offerings to merchants' customers. There is a single common application for all lenders, enabling Vyze to provide merchants with a single point of contact regardless of how many banks the merchant works with. In addition, the firm's cloud-based portal enables it to avoid integrating into merchants' point-of-sale systems.

SO WHAT

Platforms are the new and emerging battleground for financial services providers. At one level, they're an advertising channel, and at another, a distribution channel for financial firms. But the integration and processing capabilities offered by platforms will require banks to rethink and redesign the marketing practices they have in place today.

To better understand what those changes will be, we interviewed marketing executives at leading financial institutions and emerging Fintech providers serving the financial institution industry.

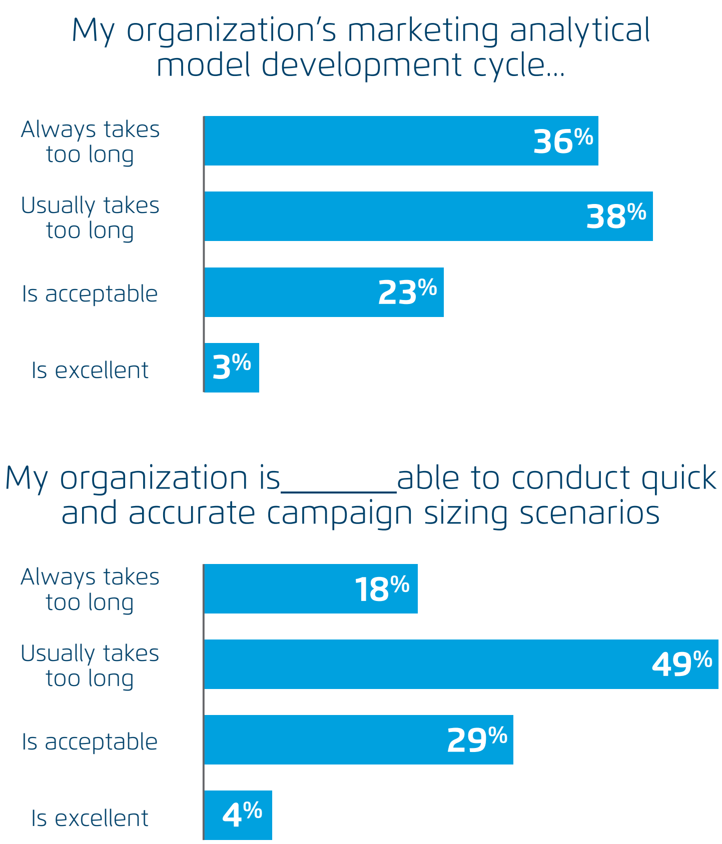
NEW MARKETING COMPETENCIES FOR THE PLATFORM ECONOMY

From our interviews, we identified three emerging marketing competencies financial services marketers will need to compete on platforms: 1) data offsourcing, 2) programmatic selling and 3) embedded decisioning.

DATA OFFSOURCING

A few years ago, roughly three-quarters of financial services marketing executives thought their organization's analytical model development process took too long, and two-thirds said they were infrequently or never able to conduct quick and accurate campaign sizing scenarios (Figure 8).

FIGURE 8: Marketing Analytics Capabilities



Source: Financial Brand/Aite Group survey of 262 financial services marketing executives, Q4 2014

Successfully competing on platforms requires faster development of analytical models. In the new platform economy, speed-to-market—which is commonly thought of as getting products to market—is really about getting messages to market faster. According to one bank executive we interviewed:

> "We need data from the platforms like Zillow to help us figure out who's going to buy and sell before they do. And data from a platform like Credit Karma can help us identify people who are trying to improve their credit score, figure out who's saving for what, and who's becoming smarter with their money."

According to Don MacDonald, chief marketing officer of MX, however, "Platforms can turn weeks into days, but the challenge is that many financial institutions are either unable or unprepared to use the tools available."

The challenge is that financial services marketers need to adapt to a new mindset regarding the sourcing of data.

Traditionally, bank marketers worked to break down internal silos to get a more unified view of internal customer data and acquired third-party data to integrate with internal sources and to use for acquisition purposes. As one interviewee put it:

> "We want access to streaming data but have no place for it in our legacy environment."

The advent of platforms turns this concept on its head—marketers will no longer need to bring data from various sources in-house but will dynamically use platform-sourced data in their analytical models. As one executive at a lending platform explained:

> "We can help do a lot of the analytics. We've got the clickstream data, we've got the email addresses, and we've got data partners. And we're continually looking for new sources of consumer data—on both sides of the consumer balance sheet—to integrate. We think it's possible that platforms will cannibalize the bureaus."

Another platform executive added:

> "Platforms can provide data that others can't. We have historical data on default behavior. Other data sources might be able to predict who will respond, but they can't say who will pay back."

SO WHAT

Financial services marketers will need to "offsource"—not outsource—data by incorporating data sources not housed internally in their own databases.

Marketers won't just have to integrate new sources of data—they'll have to deal with new combinations of sources. According to Eliana Garcés, author of *Data Collection in Online Platform Businesses*:

> "The possibility to recombine different types of data for new or better services may contribute to the decision to develop and efficiently integrate new services on the platform. The ability to recombine collected data from various sources may also allow platforms to expand into new services. Online platforms may integrate the provision of data analytics services to third parties inside or outside the platform."

PROGRAMMATIC SELLING

Financial services marketers have traditionally focused their efforts on creating brand awareness, affinity and preference. The rise of the platform economy shifts that focus to establishing product fit—and using technology to do so.

Uplift's consumer research uncovered three segments of users on its platform:

1. **Shoppers**. These consumers are in the market for a loan and looking to make an immediate decision.
2. **Researchers.** These users are looking to see what's available but have not necessarily committed to getting a loan.
3. **Explorers.** These consumers get to the platform as the result of responding to an ad or email and may not be in the market for a loan.

Interacting with platform Shoppers (more so than with Researchers and Explorers) will require financial services marketers to demonstrate a new capability: programmatic selling.

In marketing circles, the term "programmatic" is often used in the context of advertising (buying and selling). Smart Insight defines programmatic marketing this way:

> "Programmatic marketing is automated bidding on advertising inventory in real time, for the opportunity to show an ad to a specific customer, in a specific context." [5]

SO WHAT

Programmatic selling is different in that it will involve automated bidding to have a (real-time, AI-driven) conversation with a customer or prospect, not just displaying ads. In essence, platforms will become interaction platforms—not just advertising platforms.

Traditional online marketing approaches often try to drive prospects to a marketer's website or offline channel. That won't work on platforms. Much as marketers had to learn search engine optimization with the advent of Google search, financial services marketers will need to learn to sell on platforms, without an ability to directly interact with a prospect.

Rather than predicting propensity to buy, programmatic selling will answer—in real-time: 1) Is this prospect in our target audience set? 2) Where in the customer journey is this person (i.e., Shopper, Researcher, Explorer)? 3) To what offers does this prospect have access? and 4) Can we—and should we—meet or beat those offers?

If data offsourcing is about getting access to and integrating with various data sources, programmatic selling is about putting data to work at the point of interaction—or better yet, the point of influence.

EMBEDDED DECISIONING

The difference between a marketplace and a platform is that the latter provides a "toolkit" to enable integration between providers and consumers on the platform. The advent of financial product platforms creates new opportunities for financial institutions to offload decisioning and processing functions onto the platforms. Platforms help financial institutions with:

- **Loan origination.** Platforms' digital origination processes enable financial institutions to review electronic loan jackets and include electronic signature and account verification, and automate funds disbursement.
- **Credit decisioning.** Platforms provide customized credit criteria and program guidelines that fit an institution's risk level and goals.
- **Loan servicing.** Platforms are getting into servicing banks' loan portfolios, including invoicing, payment processing and real-time reporting.

The full loop marketing capability of platforms (i.e., data sourcing, programmatic selling and decisioning/ processing) reinforces the benefits of working with platforms to bank marketers. As one platform exec explained:

> "Because we help with origination through servicing, we see the full lifecycle. Few, if any, financial institutions have that kind of visibility."

Another platform exec related how this provides benefits beyond simply reducing processing costs:

> "The platform is a low-risk way for financial institutions to get into new markets. The lender tells us where they want to move into and what their underwriting guidelines are, and we can create a new service for them. It enables them to test and learn, and to get in and out of the market rapidly."

PLATFORM CHALLENGES

Platforms hold opportunities for financial services marketers to access and use data they've never had access to before, deliver levels of personalization they've never achieved before, and do it more efficiently than they ever have before. Is it too good to be true?

As with any new technology or innovation, there are potential drawbacks accompanying the purported benefits. Three challenges facing financial services marketers competing on platforms are: 1) Over-personalization, 2) Unintended consequences of data sharing and 3) Cloud adoption immaturity.

OVER-PERSONALIZATION

One-to-one marketing has been the holy grail for marketers for nearly 20 years now. As one of the interviewees for this report told us:

> "Our marketing and messaging cannot be too personalized."

There is another perspective to this. In a report titled *Five Fears About Mass Predictive Personalisation in an Age of Surveillance Capitalism*, Karen Yeung identifies a number of problems with the practice of personalization including:

- **Exploitation.** As Yeung writes, "Personalization practices foster and exacerbate the asymmetry of power between profilers and those to whom personalized services are provided, thereby increasing the opportunities for the former to exploit the latter." With the ability to detect consumers' moods based on their platform behavior, Yeung fears that platforms could use this knowledge to exploit people when they're more likely to make impulse purchases or more susceptible to particular kinds of offers.
- **Manipulation.** In contrast to traditional personalization approaches (where consumers explicitly stated their desires and preferences), the platform approach to personalization is to infer their desires and preferences based on their behavior. This happens, according to Yeung, "often without the individual requesting such a service at all." According to Yeung:

> "Because the individual has not explicitly stated her preferences and interests about the service in question (indeed, she may not want the service at all), predictive personalization techniques may not be in the interests of the customer. Predictive profiling systems employ 'nudging' techniques which are problematic because when used for the purposes of mass predictive personalization, their manipulative power is enhanced."

- **Unintentional bias.** The complexity with which data is used and analyzed for personalization purposes makes it nearly impossible for people to understand why particular services are offered to them. Yeung cites a Carnegie Mellon study that found that men were shown high-paying job ads six times more often than women based on an algorithmic assessment that concluded that women weren't interested in high-paying jobs because they had historically not been employed in them. According to Laura Kornhauser, CEO of analytics firm Stratyfy:

> "AI needs to be transparent to the user. The Chief Risk Officer must understand what a machine learning model has found—in effect, the model needs to be human-readable. With current and upcoming privacy regulations, models that just take data in and spit out decisions are problematic. The models need to know what data was looked at—and what data wasn't looked at."

SO WHAT

Marketers need to balance the potential downside and risks with the promised benefits of personalization. Do the promised benefits—to both marketers and consumers—really live up to the hype? Are they even achievable in the short term? And are they worth the costs—both in terms of the technology investments required and the potential negative societal impacts?

UNINTENDED CONSEQUENCES OF DATA SHARING

In an article titled *Google and Mastercard Cut a Secret Ad Deal to Track Retail Sales*, Bloomberg reported:

> "For the past year, select Google advertisers have had access to a potent new tool to track whether the ads they ran online led to a sale at a physical store in the U.S., thanks, in part to a stockpile of Mastercard transactions that Google paid for. But most of the two billion Mastercard holders aren't aware of this behind-the-scenes tracking. When Google announced the service, called "Store Sales Measurement," it said it had access to "approximately 70%" of U.S. credit and debit cards through partners, without naming them. That 70% could mean that the company has deals with other credit card companies, totaling 70% of people who use credit and debit cards. Or it could mean that the company has deals with companies that include all card users, and 70% of those are logged into Google accounts like Gmail when they click on a Google search ad."

Google and Mastercard were quick to address the heightened privacy concerns and fears. According to a Google spokesperson:

> "Before we launched this beta product last year, we built a new, double-blind encryption technology that prevents both Google and our partners from viewing our respective users' personally identifiable information. We do not have access to any personal information from our partners' credit and debit cards, nor do we share any personal information with our partners."

And a spokesperson for the card network was quoted as saying:

> "Mastercard shares transaction trends with merchants and their service providers to help them measure the effectiveness of their advertising campaigns. The information, which includes sales volumes and average size of the purchase, is shared only with permission of the merchants. No individual transaction or personal data is provided. We do not provide insights that track, serve up ads to, or even measure ad effectiveness relating to individual consumers."

Mercator Advisory Group, one of the leading analyst firms in the payments space, weighed in on this story, asking, *Is Google Really in Cahoots with Mastercard for Cardholder Data?* According to Mercator, there are some holes in the story:

> "First, in order for this information to be really of value to merchants, it needs to include cardholder data from more than just Mastercard. Visa has stated that they do not have a data sharing relationship like this with Google. Also, the card networks often don't capture itemized data. They wouldn't be able to link the browser activity for a specific item to the actual purchase of the same item."

According to one of the interviewees for this report:

> "Proving that online ads actually support 'physical' purchases has been a serious hole in both the search engine providers' and 'merchant acquirers'" stories. What they're doing is matching Google AdWord searches by a particular user to a Mastercard purchase transaction they find for that user and determining: 1) Did the user search for that product online and where did they search? 2) Did she purchase that item at a physical store? and 3) How long after the search did the purchase transaction consummate? Google has a developer's toolkit (beta) already available to allow mobile app developers to build data collection/matching capabilities."

Bloomberg wrote that "Google can anonymously match existing user profiles to purchases made in physical stores." Based on what Google is allegedly doing, however, it hardly sounds anonymous as the firms can tie the purchase data back to identifiable consumers (or at least Google can).

But does it really matter if they don't? If Google knows your online behavior, your offline behavior, and has ways to advertise to you and message you based on that information, does it really matter if it knows your name?

SO WHAT

As Mercator's Sarah Grotta said, "The problem here is that the mere perception of wrongfully sharing private data can be very damaging, regardless of reality."The Bloomberg story is just another data point in the growing big tech/platform backlash movement. The potential result is a wave of regulatory changes that could eradicate the potential benefits of competing on platforms.

Public Knowledge, a 501(c)(3) organization designed to ensure universal access to affordable and open networks, published the following:

> "We have reached the point where we need sector-specific regulation focused on online digital platforms, not just application of existing antitrust or existing consumer protection laws. When platforms have become so central to our lives that a change in algorithm can dramatically crash third-party businesses, when social media plays such an important role in our lives that entire businesses exist to pump up your follower numbers, and when a multi-billion dollar industry exists for the sole purpose of helping businesses game search engine rankings, lawmakers need to stop talking hopefully about self-regulation and start putting in place enforceable rights to protect the public interest." [6]

There's certainly another side of the argument (see *Why Internet Platforms Don't Need Special Regulation* from the Information Technology and Innovation Federation). The tide is turning toward the favor of those advocating greater regulation.

Calls to break up platforms like Facebook or Amazon or limit the use of data gathered by the platforms will impede financial institutions' ability to leverage the promised benefits of competing on those, and other, platforms.

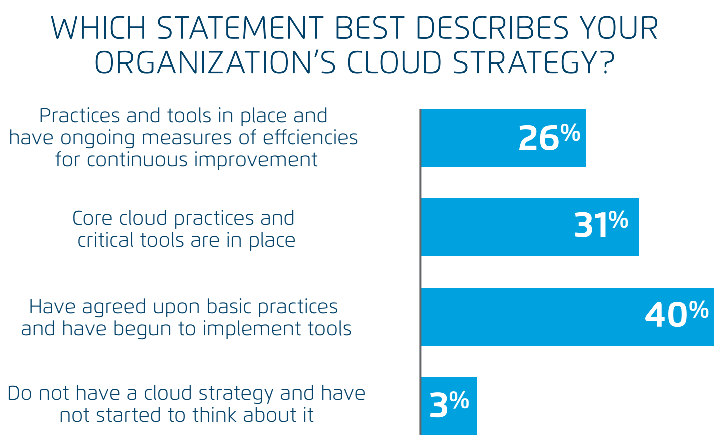
CLOUD ADOPTION IMMATURITY

Capitalizing on the marketing opportunities in the platform economy will require financial institutions to be more nimble and agile than they are today. Speed-to-market and agility are often mentioned as benefits of cloud computing. A Cap Gemini report described it this way:

> "The flexibility of cloud-based operating models shortens development cycles for new products. This supports a faster and more efficient response to the needs of banking customers. Since the cloud is available on-demand, less infrastructure investments are required, saving initial set-up time. Cloud computing allows businesses to move non-critical services to the cloud, including software patches, maintenance, and other computing issues. As a result, firms can focus more on the business of financial services, not IT."

Despite persistent perceptions that banks haven't adopted cloud computing, a global survey of banks conducted by Accenture found that just 3% of respondents didn't have a cloud strategy and had not started to think about it (Figure 8). Just a quarter of them, however, have cloud computing practices and tools in place with measures and methods for continuous improvement.

FIGURE 9: Cloud Strategies In Banks



Source: Accenture

Lack of cloud computing maturity will be an obstacle for banks looking to compete on platforms. Likewise, U.S. banks' slow of adoption of APIs will also hinder their ability to reap platform benefits. In an article titled *Slow API adoption is dragging U.S. banking down*, Nabeel Siddiqui, Vice President at Currencycloud, wrote:

> "American banks' slow adoption of application programming interfaces is one reason the world's largest economy has stumbled in advancing digital banking. U.S. banking, meanwhile, does not inherently support API integration. Integrating parties into the bank technology infrastructure is a slower process that ultimately hampers progress."

Optimizing the potential benefits of platforms requires a large degree of integration between a financial institution and a platform. Achieving the needed level of integration will be a challenge for institutions that are early on in their inevitable journey to the cloud.

Purported cost and technical benefits from cloud computing have failed to overcome cloud opponents' resistance to the new computing paradigm. Why won't they change their minds? Three reasons: 1) Reluctance to change, 2) No pressure to change, and 3) Lack of clarity regarding future business strategic direction.

Reluctance to change is certainly a barrier to changing cloud opponents' perspectives. As one CIO told us, "It's a different model than what people are used to and comfortable with." We can understand that. But in the absence of an imperative to change—either from competitive pressures or changing strategic directions or priorities—that reluctance to change won't be broken down.

1. www.platformed.info/platform-stack
2. www.consultancy.org/news/104/market-size-of-global-platform-economy-surpasses-7-trillion-mark 3 www.pymnts.com/consumer-finance/2018/how-much-of-the-consumers-paycheck-goes-to-amazon
3. Results are from an unpublished survey of 131 Uplift users conducted in Q4 2018 shared with Cornerstone Advisors for the purpose of this report.
4. www.smartinsights.com/internet-advertising/internet-advertising-targeting/what-is-programmatic-marketing
5. www.publicknowledge.org/news-blog/blogs/why-platform-regulation-is-both-necessary-and-hard

CONCLUSION

There's little disagreement that platforms have transformed the way consumers shop for, purchase and apply for a wide range of products and services, including Financial Services. But the transformation of Financial Services firms' marketing practices hasn't happened yet, as many marketers simply see the platforms as advertising vehicles.

Making the transformation will take more than just a mindset shift on the part of marketers, however. Creating new competencies around data offsourcing, programmatic selling and embedded decisioning will require strategic and tactical collaboration from IT and operation within financial institutions. The banks that achieve the most success from competing on platforms will likely be those that:

- **Ensure data agility.** Having a data environment that can capture and integrate new sources of data, and then enhance it and make it quickly available for analytical purposes will be a key competency for banks in the platform economy.
- **Rapidly and effectively deploy emerging technologies.** Success in the platform economy will rely on technologies like machine learning and cloud computing. Today, however, too many banks are playing around with AI in "innovation labs" without clear processes for operationalizing the tools in a marketing production environment. Likewise, many financial institutions are moving to the cloud, but doing so as contracts expire—leading us to believe that they might not be moving fast enough.
- **Make smart vendor choices.** Large financial institutions are accustomed to using a variety of marketing services providers. While the vendors might prefer to be a one-stop shop, we don't believe the market is moving in that direction. Instead, marketing services vendors will need to better integrate with each other. As a result, when choosing vendors, banks will need to look beyond a firm's capabilities regarding modeling, or creative services, and understand: 1) Will the service provider respond quickly to changing technology developments, and 2) Can the service provider help integrate the marketing services ecosystem the institution is using?

FINAL THOUGHTS

Financial Services companies have unique assets, skills, and capabilities that have been built and leveraged over centuries. They also have a very entrenched customer base with segments that are reluctant to change providers. However, as outlined in our report the attackers – Fintech companies, large consumer ecosystems and platforms, and progressive financial institutions – are opening up new battlegrounds in areas like customer acquisition, customer servicing, credit provision, and building deepening relationships with consumers.

Today's consumers have expectations that are different from the past. A large millennial population (all digital natives) are considerably more open to considering new Financial Services providers that are not their parent's bank. The proliferation of mobile devices and shifting preferences mean that customers expect more real-time, cross-channel capabilities than ever before. Financial Services providers must recognize that customer expectations are increasingly set by non-banks and there is a need to deliver services with a more compelling design in unconventional ways.

These changes are pushing Financial Services companies to transform just to keep up. It is now time to adapt and improvise.

We hope this report provides a insightful perspective on the changes taking place in the industry and offers some valuable direction. We welcome your thoughts and feedback.

ABOUT ACXIOM

Acxiom LLC is a global technology and marketing services company with a vision to transform data into value for everyone. Through our technology and approach to connecting systems and data, we provide the data foundation for the world's best marketers. By making it safe and easy to activate, validate, enhance, and unify data, we provide marketers with the ability to deliver relevant messages at scale and the ability to measure marketing results. Our clients include many of the world's largest, most forward thinking and fastest growing Financial Services companies. We believe we can help. To continue the conversation, let's get in touch.

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