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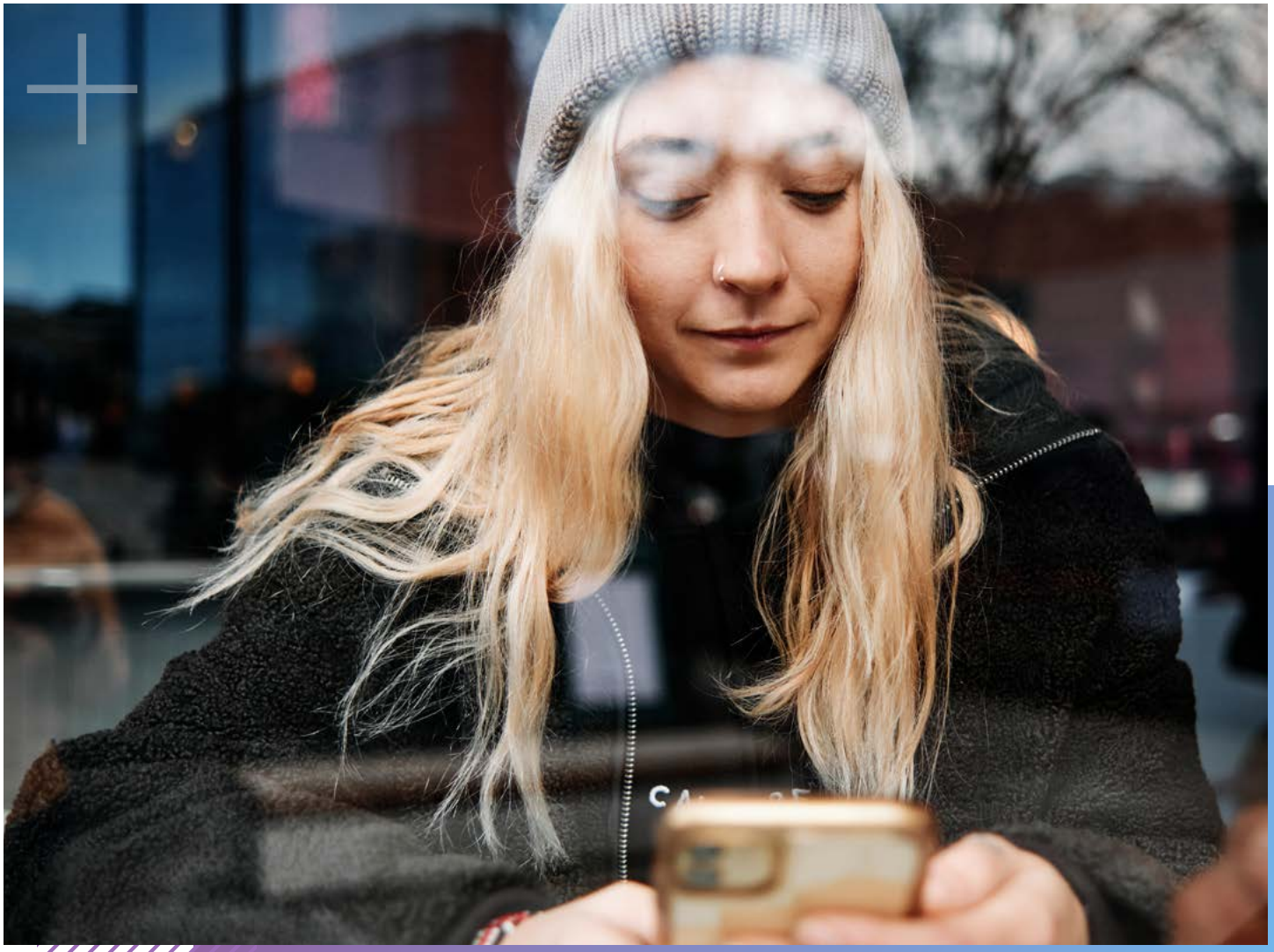
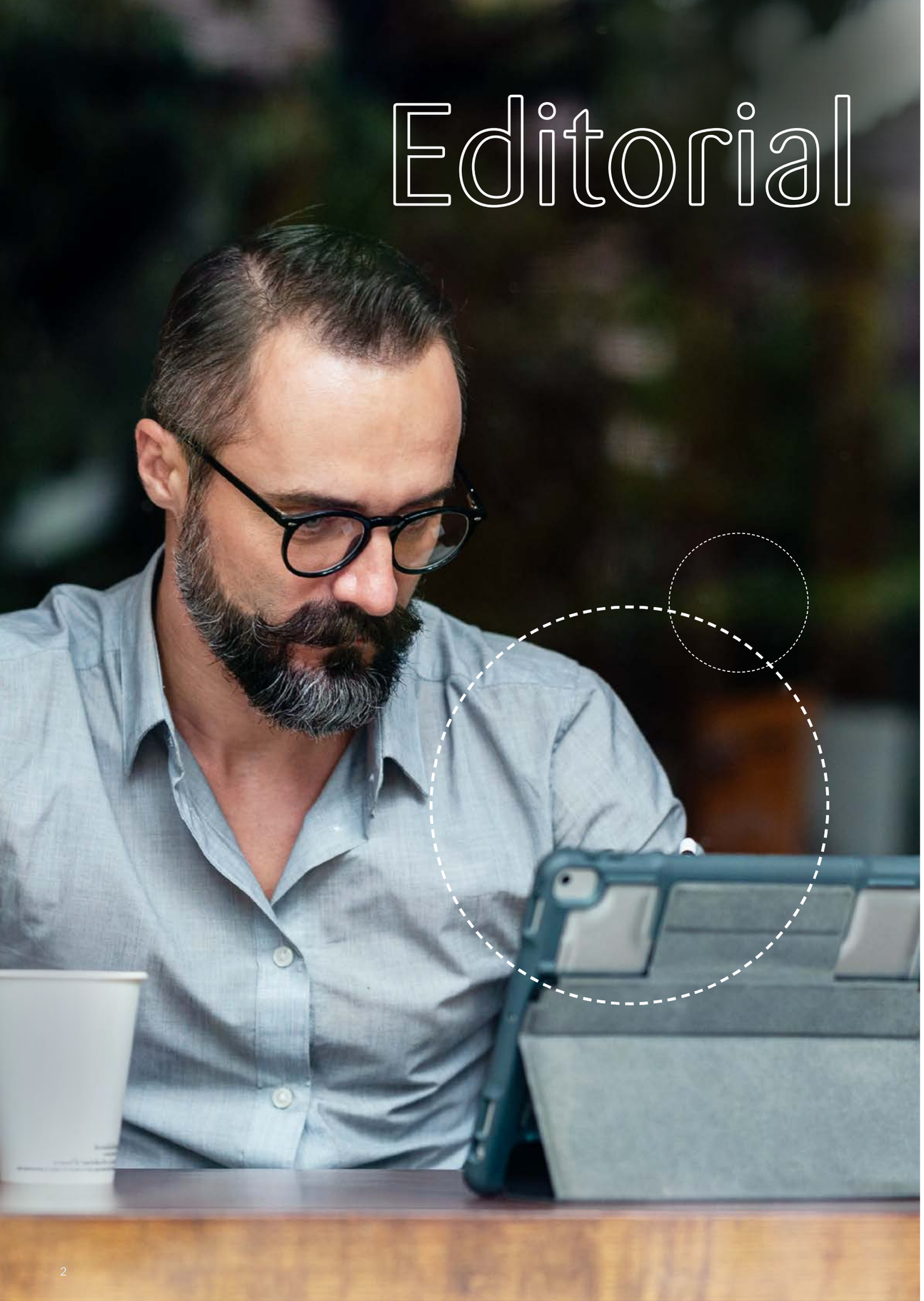


Financial literacy –

how banks can generate new added value

Zühlke September 2022



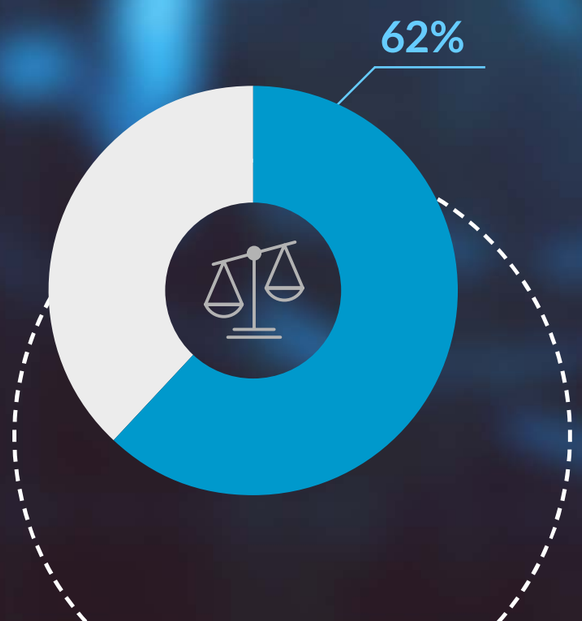
Lacking financial literacy and its business relevance for banks

A survey commissioned by Zühlke has shown that the financial literacy of many bank customers in German-speaking countries is lacking. They don't have any suitable financial strategies for wealth creation or aren't implementing them properly. There are clear differences in this context that reflect socio-demographic factors. From this, we can determine five different types of people when it comes to finance.

This background information is hugely relevant to banks from a business perspective, as the survey clearly shows that new services and offers in this area harbour tremendous potential to set financial service providers apart. Against the backdrop of the rise in global inflation, how can banks help their customers manage their finances better? What priorities should be set, and what existing best practice approaches and real-life use cases are available? Find out more in this Zühlke white paper!

‘ 62%

of respondents would be willing to change banks if they offered appropriate services. ’



Ignorance is a risk – to wealth:

Survey shows considerable gaps in financial literacy.

According to a survey commissioned by Zühlke, 70% of Germans believe they are well-informed when it comes to the finance and investment. But, generally, people – especially in the younger generation – show a keen interest in taking an even more hands-on approach to investing. The survey also revealed that almost three-quarters of Germans set, and also try to achieve, long-term financial goals. Despite this enthusiasm, one in four regularly dips into their overdraft – again, something more common among the younger generation.

More than half of respondents keep their money in their current account. Around 20% have invested their money in securities such as shares, funds or ETFs. And just under 10% have already invested in cryptocurrencies. Here, the survey revealed huge differences between genders and generations.

The main reason people gave for not investing in shares, funds or ETFs is a lack of knowledge. Around one-third shy away from the risk of losing money. Under-30s in particular choose not to invest in shares, funds or ETFs because they feel they don’t know enough about them.

The survey further shows that the vast majority (61%) of bank customers would like to play a more active role in managing their finances. Above all else, imparting financial knowledge should be easy to understand and come from a trustworthy source. At present, 81% of those surveyed take it upon themselves to find out about investing through various information channels. But only one in four turns to the bank for advice. Almost one-third of respondents consider the bank advisors at their principal bank to be the most competent contacts for information on financial and investment-related topics. But not even one-fifth consider banks’ online services to be successful.

When bank customers use automated banking services at present, their main intention is to compare offers (for the likes of insurance premiums or loans). Under-30s would be more likely to use their bank’s individual services than older people. On the whole, women are somewhat more open to using individual banking services.

Finally, the survey showed that 62% of respondents would be willing to change banks if they offered appropriate financial management services.

The five different financial profiles

Our financial literacy survey also revealed that people can be profiled when it comes to financial management. Essentially, bank customers can be allocated to one of five groups. Some of these profiles reveal clear socio-demographic swings by gender, age and income.

1. The traditional saver

(Female: 56%, 51% over 40)

The traditional saver has a medium income and little or no debt, and is neither happy nor unhappy with her current financial situation. Money doesn't mean much to her. She puts anything she has left over at the end of the month to one side. She tends to set, and tries to achieve, long-term financial goals.

2. The overcautious saver

(Female: 56%, 60% over 50)

The overcautious saver has a medium income. She generally doesn't have any debt and is happy with her financial situation. She doesn't like, and often even disapproves of, talking about money. She doesn't enjoy dealing with the topic of investing and avoids risky investments.

3. The prudent investor

(Male: 74%, 59% over 40)

The prudent investor has a high income. Money is important to him. He sets, and also tries to achieve, long-term financial goals. He is well-informed when it comes to investment products, and would like to focus even more on them in the future.

4. The carefree consumer

(Male: 58%, 74% under 40)

The carefree consumer enjoys and doesn't think twice about spending his money. He sometimes dips into his overdraft to do exactly that. He believes that money is there to be spent, and wouldn't shy away from any risk when investing, even though he doesn't understand most investment products.

5. The low earner on the breadline

(Female: 66%, 60% under 40)

The low earner on the breadline only has a low income and her account is regularly overdrawn. The price increases we are experiencing at present are placing a heavy strain on her, and she often doesn't know how to support herself. She isn't happy with her financial situation and is barely receptive to investment products.

What should banks do?

Three strategic issues: data-driven services, hyper-personalisation and the metaverse

The survey clearly shows that bank customers in Germany, Austria and Switzerland would like to get more involved in the topic of investing. However, respondents would like to see banks playing a more active role when it comes to financial management. The vast majority of people don't follow a savings strategy and have problems putting their financial planning into practice on a daily basis. Customers would like to make greater use of smart services. A significant majority would even change banks if their current service provider didn't offer them. This fact impressively demonstrates just how relevant this topic is for banks and underlines the potential for institutions to set themselves apart.

The profiling also revealed major differences between genders and generations with respect to sources of information, dealing with the topic of investing and personal financial literacy. Banks would do well to make information easy for their different target groups to understand. Although customers consider their banks as trustworthy sources of information, there is a lack of clear distinguishing features that set them apart. It is important to create new services, especially for the younger target group.

Based on the results of the survey, we have identified three areas banks should invest in to generate added value for their retail customers.

1) Data-driven services
2) Hyper-personalisation
3) The metaverse

Data-driven banking services: a response to a lack of financial knowledge

The survey shows that the vast majority of people don't follow a savings strategy and have problems putting their plans into practice on a daily basis. Bank customers would like to increasingly use smart services to buck this trend, and would even change their financial institution to do exactly that if their existing service provider didn't offer the services they needed.

They would, in particular, benefit from a digital service that brings their daily payment behaviour into alignment with their long-term goals. This would include the likes of notifications if savings targets cannot be met, favourability checks (on insurance policies, for example), or actively taking coupons into account when shopping.

Data-driven services should also play a more active role as early as the quotation and the associated financing process. In doing so, when financing home improvement projects (e.g. when putting in a garden pool), the service can directly combine the best mix of equity and debt capital to ensure the most favourable financing.

Banks can use and analyse the numerous existing data sources (including the likes of payment data, salary deposits and investment behaviour) to develop new, smart services.

In the context of wealth formation, there are **three effective solutions** that come to light.

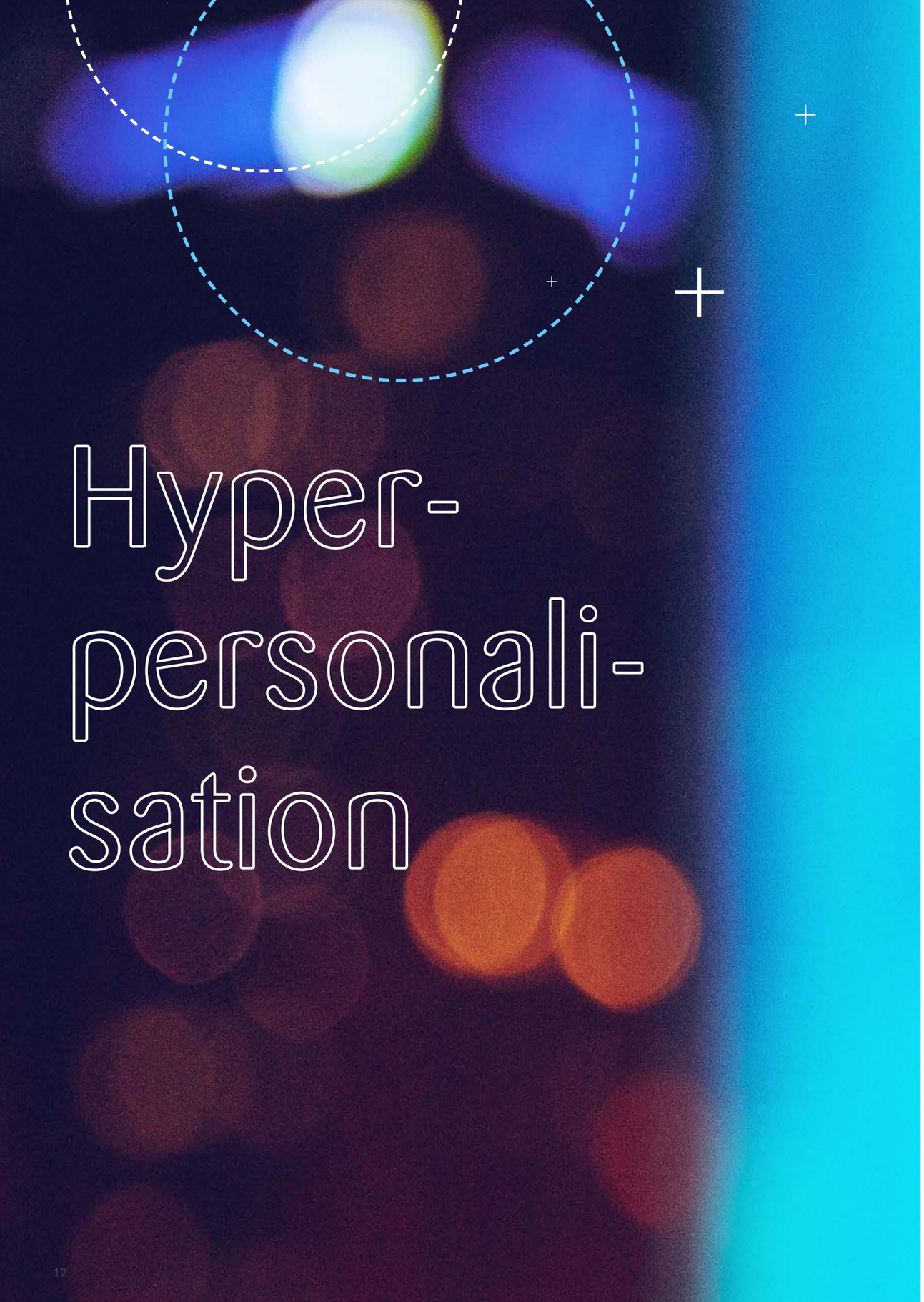
1. **Democratising investment advice:** Thanks to digitalisation, smart services and ranges from investment advisors that are designed to help improve people's information and investment decisions can be made available to a broader customer base.

2. **Analysing investment and payment behaviour** helps with making predictions about major life events (like getting married or starting a family). This allows banks to support their customers in the next phase of their lives by providing new financial products.

3. **By analysing payment behaviour**, banks can measure customers' financial stress levels and help them to improve their financial situation by taking effective action.

According to our profiles, different groups of bank customers are potential target groups for new services like these. But the **traditional saver** in particular would benefit from these new services.

Zühlke developed a service surrounding solution 3 for **first direct**, a challenger bank. You can read more about this here.



Hyper-personalisation: a response to different financial profiles

The study revealed major differences between generations and genders, thereby enabling financial management profiling. Banks should make the relevant information easier for all their target groups to understand and personalise it more.

The pandemic only served to intensify the digitalisation and automation of financial service providers' processes. Financial service providers particularly invested in expanding their range of self-service products. However, front-end expectations in terms of both the user experience and customer journey have risen sharply in recent years. The appeal and flexibility of many traditional banking services have been improved by big tech and fintech companies, hence why simply digitalising processes is no longer enough. Experiences are absolutely vital.

An intuitive user interface that adapts to the user's needs is a must-have if seeking to create a genuine, new user experience. But the user interface isn't the be-all and end-all. Challengers such as TradeRepublic, Robinhood and crypto app Coinbase are showing how user-centric process design can spark greater interest in investing through new means of knowledge transfer.

Coinbase and Revolut are both taking different approaches that are unprecedented and unique. Coinbase is opting to take a game-based approach to knowledge transfer directly in the app, where users are rewarded (in the form of cryptocurrencies) after successfully completing a final test. Revolut is implementing a play-to-earn technique together with Polkadot to teach users the basics about cryptocurrencies and the interplay of blockchain and Web 3.0. The overall goal is to make it easier for customers to identify trends, risks and potential investment opportunities.

With the help of the framework of a user-centric design process for new services, banks have the opportunity to take an outside-in perspective and offer their customers customised information and solutions. For instance, different personas (like those listed in this study) should be addressed with a different choice of words, alternative offers and varying content to raise their awareness of a specific investing subject.

Designing the customer experience is a key component of every Zühlke project. Together with our customers, we put a fresh spin on existing services and actively involve end users in the development process. Using this framework, Zühlke has already helped a multinational banking client specialising in retail banking and wealth management to improve the rating of its end user app from 1.6 to 4.8 stars in the App Store.

Meanwhile, for **Credit Suisse**, Zühlke has also co-developed the Digipigi, which increases the fun factor and transparency for its youngest generation of customers.

The metaverse

Next stop: the metaverse

The metaverse is a mega-trend that promises users an immersive experience. Numerous tech giants and start-ups are investing billions in the metaverse.

Instead of simply viewing content from a 2D standpoint, we'll become part of it in the future. We'll immerse ourselves in 3D worlds and experience content in a natural and highly immersive way. Nowadays, this is often done the traditional way (on screens), but in future it will increasingly be done using augmented or virtual reality.

When it comes to financial literacy, the metaverse offers tremendous potential. Information about what is a complex and, often, somewhat dry subject can be imparted in a game-like, tangible and dynamic way through the metaverse. Combined with gamification, an investment strategy or a mortgage market becomes a game where users can immediately experience and put right the effects of their decisions. This short feedback loop, coupled with the emotions of a game, leads to a high level of learning efficiency and help to anchor the experience.

What is important in this respect is to put a totally brand-new spin on the experience. Placing text or a video on the wall of a virtual room will probably make an experience even worse than if it were posted on a traditional website. Only those who harness the possibilities that virtual worlds and the power of gamification have to offer will be successful in captivating users and thus achieving the desired effect.

A good example of financial literacy achieved through 3D gaming is Mogaland by our client Tradelite.

Conclusion

Today, financial literacy is more important than ever. Increasing old-age poverty, the period of low interest rates and the current high level of inflation will all prove hugely challenging to society if today's standard of living is to be maintained.

The study commissioned by Zühlke makes it clear that customers do not receive individual support from financial institutions when it comes to building up their wealth. Additionally, false perceptions about investing and a lack of financial literacy both lead to considerable uncertainty when it comes to investing, which is why many people's purchasing power diminishes due to them leaving their savings sitting in current or savings accounts.

Both branch closures and the pandemic have caused financial institutions to invest heavily in basic digitalisation in recent years – by digitalising and automating existing internal processes. It's high time that the full focus shift to the customer again, so we can set ourselves apart on the market from big tech and fintech companies. And, as part of this endeavour, we need to develop new customer journeys, offer front-end personalisation and provide data-driven services in real time. The needs of different customer groups have to be channelled and met. The technical opportunities of offering the likes of a flexible app to suit people's individual requirements can be seized even today. With the help of the latest technology and an appropriate design, customers can determine their own individual level of desired autonomy for banking services. We need to take the next step in customer interaction now, since global big tech companies in particular are continuing to gain banking-specific expertise through payment solutions and cloud services. Retailers are also keeping payments within their own ecosystems, stopping banks from earning from them.

So it's high time that banks clearly set themselves apart and create new experiences, so they can win back customers' trust and position themselves as experts on the market. What topic would be more suitable in this regard than financial literacy – empowering clients to explore financial opportunities and shape wealth preservation and accumulation?

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Zühlke – empowering ideas.

Zühlke is a global provider of innovation services. We develop ideas and create new business models for our customers by developing services and products based on new technologies – from the vision and concept to implementation, production and operation. Zühlke employs 1,700 staff in Austria, Bulgaria, Germany, Hong Kong, Portugal, Serbia, Singapore, Switzerland, the United Kingdom and Vietnam.

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