Rob Rubin, Tiffani Montez, and Maria Elm

The Banking & Payments Show: Banks in 2030

Audio

On today's podcast episode of The Banking & Payments Show, we do a deep dive into Maria Elm's EMARKETER report, The Bank in 2030. In the 'Story by Numbers' segment, we find out how banks will promote their brands to consumers in the future. We argue nicely in the 'For Argument's Sake' segment about the end of banks as we know it and if it's true that 90% of consumer-serving banks and credit unions won't exist by 2030. Listen to the conversation with host, Rob Rubin, and analysts Maria Elm and Tiffani Montez.

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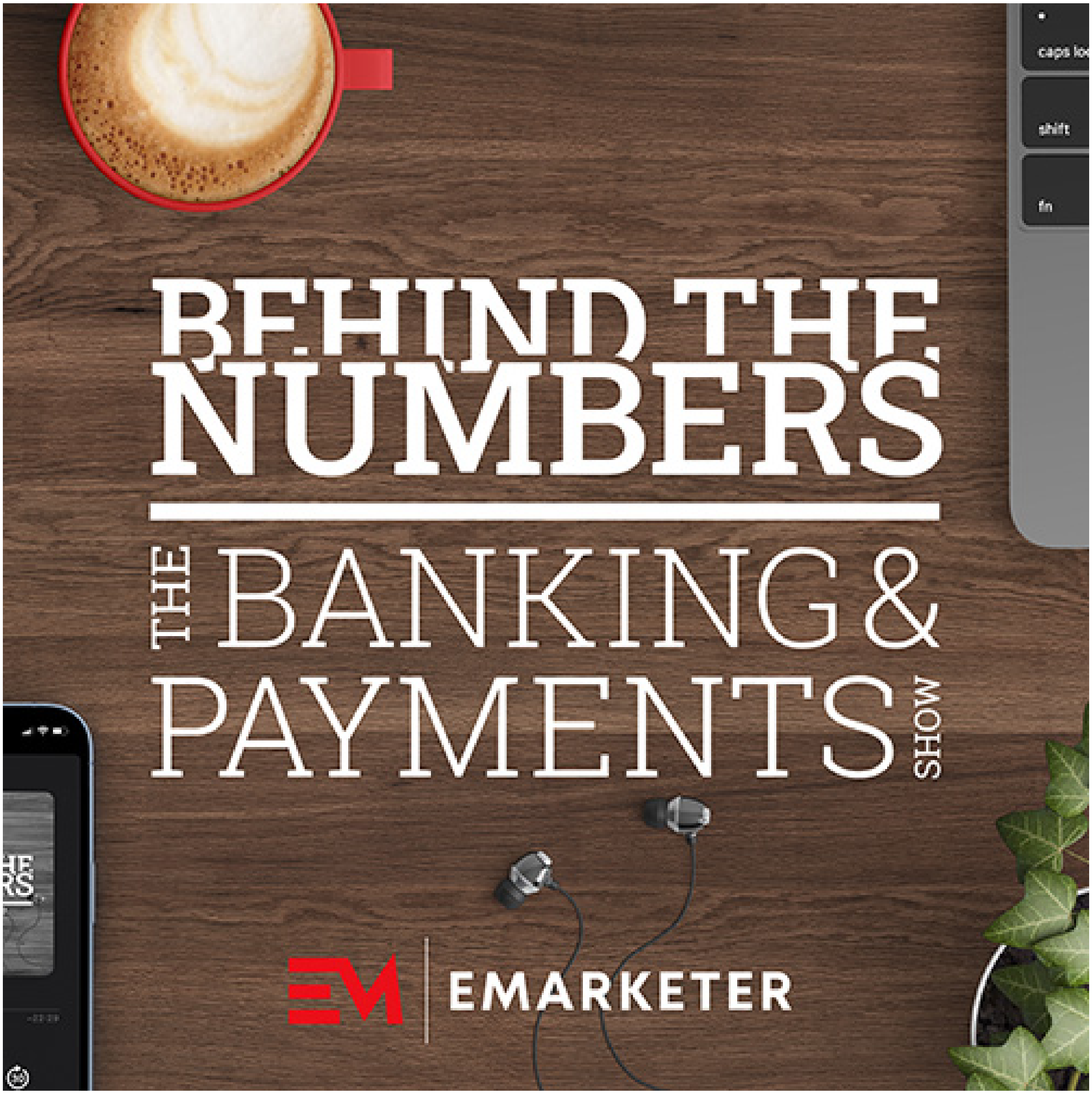

Episode Transcript:

Rob Rubin (00:00):

B2B marketing teams rely on eMarketer media solutions to elevate their thought leadership and build meaningful relationships through exclusive webinars, guides, infographics, and more. Visit emarketer.com/advertise to learn more about our proven approach. Hello everyone, and welcome to The Banking and Payments Show: Behind the Numbers podcast from eMarketer. Today is August 20th, 2024. I'm Rob Rubin, head of business development at eMarketer, and your host. Today, I'm joined by our leader of banking research, Tiffani Montez, and senior banking analyst Maria Elm. Hi, Tiffany.

Tiffani Montez (00:43):

Hi there.

Rob Rubin (00:44):

Hey, Maria.

Maria Elm (00:45):

Hey.

Rob Rubin (00:46):

Maria. I can see that you're melting and I wanted to talk to you about the heat wave that you're currently living in the UK. What's going on there?

Maria Elm (00:54):

Yeah. So over here, we have a heat wave maybe once every decade. We don't have air conditioning as a result. So when the heat does hit us, we all melt. Yeah.

Tiffani Montez (01:07):

So is this the hottest episode that we've ever had?

Rob Rubin (01:10):

I think it's the hottest episode on record. That's a good one. I like that. Today's subject, The Bank of 2030 is based on a report written by Maria with the same title. And as we get into it, Maria, I'm hoping that you can just give us a quick overview of the report, The Bank of 2030.

Maria Elm (01:30):

Yeah, definitely. So the report basically says that as consumers have developed more and more financial relationships across more providers, one of their top priorities is going to be, how do I integrate all those relationships seamlessly under one platform so that my managing my finances is in a disjointed nightmare. And the bank in 2030 says that the way the banking industry is going to respond to that is really double down on seamlessly integrating consumers financial relationships on one platform and letting them access any kind of banking or financial services they want in one place, whether that's from their main bank or from another provider.

Rob Rubin (02:18):

Okay.

Maria Elm (02:18):

And the report basically just outlines how we think that'll happen.

Rob Rubin (02:23):

Yeah, I don't want to go into too many details. We're going to talk about it, but it's really around life stages.

Maria Elm (02:28):

Yeah.

Rob Rubin (02:28):

They organize themselves into what life stage or life goals do you have and try to build the best suite of products and services to serve that-

Maria Elm (02:37):

Definitely. So instead-

Rob Rubin (02:39):

[inaudible 00:02:39]

Maria Elm (02:39):

... of today, just separately selling you a checking account, a mortgage, and a savings account, rather than focusing on those discrete products, the bank is going to be like, "How can we help you right now where you are in your life?"

Rob Rubin (02:53):

Okay.

Maria Elm (02:53):

"And do you want to buy a car? Do you want to own a home?" And they'll start with that. And then they'll be like, "Okay, so which products and services do you need to make that happen?"

Rob Rubin (03:03):

I want to talk about one of the trends that this seems to be a reaction to is how we've seen a proliferation of different types of organizations offering financial services, banking products like credit cards and different things, savings accounts. Do you see this as a way for banks to aggregate or take control of the banking experience more?

Maria Elm (03:26):

I think that that's definitely going to be a motivator for them. Banks already struggle with getting enough time spent on their apps to build meaningful consumer relationships. So I think that part of this aggregation drive is definitely going to be, how do we get consumers to spend more time with our app? How do we get to be more front of mind for the consumer by capturing as many of their needs as we can?

Rob Rubin (03:52):

This brings us to Story By Numbers, where I pick a number relevant to the topic and we discuss the implications. From a survey that we did at the end of 2023 based solely on trust, 58% of respondents indicated they will buy banking products from their current primary institution in the future. And given the different future that's envisioned in The Bank of 2030, how will banks promote and capitalize on their brands with consumers in 2030? What do you think?

Maria Elm (04:28):

I think even if, for example, you're a bank and you choose to go more of a utility white label route rather than direct to consumer... And I do think we'll see banks trying out both options. I think bigger ones will go for, let's stick direct to consumer because we have the clout for that. Smaller ones will probably go the utility style route. But I think for both types of banking, what you're going to see is just a foregrounding of we're stable, we're trustworthy, where stringently regulated, and that's always going to be something that bank marketers lean into, whether or not they're interacting directly with the consumer. Because even if you're not really paying much attention to who's providing the banking services in the app you're using, you want to know that even if this player is in the background, that they're licensed to and competent ad protecting your money.

(05:27):

So I think that'll always be part of the marketing, but I would caveat that with, I think it's going to become more and more difficult for banks to lean on consumer trust as something dependable because I think more and more, you're going to see the banking industry as a whole clashing with consumers on environmental points, for instance. It's going to get harder and harder for them to win consumer trust. That's my two cents.

Rob Rubin (05:52):

I wanted to ask Tiffani because it was at the top of my mind, especially because you spend so much time working at banks. How does the organization have to change in order to do this, to be focused on cohorts and to be more customer centric, less product centric?

Tiffani Montez (06:08):

Yeah, I think it fundamentally comes down to rather than looking at how you sell products and services to consumers that may make a decision that has financial impact, how do you actually get in front of that decision, meaning if we talk about life stage and you have insight into where a customer is in a particular life stage, or perhaps that their entering a new life stage, how do you proactively get in front of that life stage and be able to offer them the right education around, how do you make financial decisions around this life stage? What products do you need? What services do you need as a part of that, whether they're financial products and services or non-financial products and services? And then how do you help them continue to make the right decisions?

(06:58):

So when I start to think about the multiple relationships that consumers have across multiple institutions, I think a key role that financial institutions can play is really helping people understand, after you've made a decision, do you have the right mix of products and services that align with your short and long-term goals? Buy now, pay later is a great example. The younger generations tend to gravitate towards those types of products, and they might have more than one buy now, pay later, but at a certain point it may make sense for them to do consolidation. And that's where financial institutions can play a key role, not only in helping them upfront with the product, but later helping them recalibrate their financial products and services to make sure that they align with their short and long-term goals.

Rob Rubin (07:44):

Don't you think ultimately, they would have to be able to prove that it would be more valuable to work with us and to find the best products for you than for you to be shopping around and looking on your own?

Tiffani Montez (07:57):

Yeah, absolutely. There's a lot of that goes on today, right? Even if you think about marketing products, it's you need this product, but it never explains to you why you need this product over another product and how much, for example, you might actually save either in interest by switching and/or if you switch, for example, from one a credit card to another credit card, based on your spending that you've done over the last year, why is this card better for you as it relates to the reward structure? How can you actually optimize on rewards? And I think there's not a lot of that that goes on today. It's more like, "Here's a product for you. You may or may not have a need." We would be in a better position as an industry if we said, "Here is the right product for you. This is why that product is right for you, and here's what it will mean to your financial decisions and your financial management."

Rob Rubin (08:48):

Right. Maria, do you have anything to add to that?

Maria Elm (08:51):

I think Tiffani's absolutely right. And I think more and more, also as you see marketers leveraging Gen.AI for instance, it's going to become... I don't know if it'll become standard, but maybe expected that even at that early marketing stage, conversations are very much centered around your particular individual needs as a consumer. So it's going to become a thing of the past.

Rob Rubin (09:17):

But is there a need for a new role at a bank that's more of like an impresario for a cohort to know, to be able to figure out, for us to really deliver services to this cohort or life stage, we need to have relationships with these companies, we need to... Don't you think? I don't see that role in a bank today.

Maria Elm (09:39):

I don't think it calls for an entirely new role. I just think this is the way marketing is going to have to evolve from inside, but I don't know if you agree, Tiffani.

Tiffani Montez (09:48):

I think one of the things that I would say, and I was thinking about your report, Maria, as I prepare for a client conversation in a week or two, and one of the examples that you gave in the report was about automobile ownership and the life stage around automobile ownership. So when you think about the different stages of that, it's about finding a vehicle, right? It's about buying the vehicle. It's about maintaining that vehicle, and then it also becomes about how can someone-

Maria Elm (09:48):

Insuring it.

Tiffani Montez (10:18):

Insuring it, and then helping someone understand when the cost of owning that vehicle is more than them actually purchasing a new vehicle. So when I think about the role of a financial institution, there is very little that happens in that last stage, which is helping them really understand the cost of ownership and helping them understand when it's time to actually buy a new vehicle because you maintaining the one that you have makes no more sense anymore. And it's time for you to step into a new vehicle, and here is what you can afford based on what we know about you. So I think that there's touch points, but there certainly isn't someone that's helping them through the complete life stage.

Rob Rubin (10:59):

I feel like in the end when you buy a vehicle, at least for me, I go in and I'm so this is what we need, we don't need more, and I always, always end up with features that just get added in, and I ended up making an emotional decision having nothing to do with it. So I don't think that we're going to take that element out of the process that a lot of people make big financial decisions kind of emotionally.

Tiffani Montez (11:26):

Yeah, it is very true. And when it comes to life stages, there is definitely emotion. But I think to the degree that you can add in some logic around that emotion, then you have an opportunity to perhaps change the behavior to be, I don't know that you'll completely get rid of all the emotion, but to be less emotional, and maybe you feel less buyer remorse at the end of it.

Rob Rubin (11:45):

Right. Maybe with more facts, you can be less emotional because you actually have hard facts in front of you. I want to first sum up what we talked about, that the bank in 2030 being more customer centric is going to organize themselves around life stages and to try to meet consumers where they are, and develop a suite of products and services, either their own, plus partnering with others, to really deliver a full suite of services to consumers.

(12:15):

And in our final segment today, for argument's sake, we're going to argue nicely about basically a position that I've taken several times on this podcast, that by 2030, I think we're going to have fewer than 500 banks and credit unions in the US serving consumers directly, and there's about 6,000 today. So the reason I think that is that most institutions aren't going to be able to break from their current business models or have the technical chops to keep up with the behemoth banks who are investing billions, tech giants like Apple, who 90% of Gen Zs have in their pocket, and new entrants that don't have all the legacy baggage of a community bank or credit union. So in my opinion, the evolution that's predicted in the bank at 2030 spells the end for about 90% of consumer serving banks and credit unions operating today. Maria and Tiffani, am I wrong?

Maria Elm (13:19):

I agree that we're going to see a reduction like that. I think you're absolutely right on that point. I think the only thing I would disagree with is the timeframe.

Rob Rubin (13:29):

Sooner, right? It's going to happen before then?

Maria Elm (13:31):

No, I was going to argue the opposite.

Rob Rubin (13:31):

Oh.

Maria Elm (13:36):

No. We're talking about an industry that's not really known for moving quickly. And I think given the scale of the shift we're talking about here, it's probably going to take a while for that winnowing to happen. So I'm going to disagree on that we'll see this many banks die out by as soon as 2030. I would give it 10 years maybe.

Rob Rubin (13:59):

All right, so I'm four years off of your prediction?

Maria Elm (14:02):

Yeah. Well-

Tiffani Montez (14:03):

Rob, here's what I want to know. I've been on an episode with you where we've talked about this, so I'm convinced now that you just keep inviting me back to see if you're going to change my mind.

Rob Rubin (14:12):

If I could get you to change [inaudible 00:14:15]

Tiffani Montez (14:15):

To see if you're trying to break me down.

Rob Rubin (14:17):

The truth, it's an internal office bet that's been going how many episodes?

Tiffani Montez (14:22):

You're like, "When is she going to flip and agree with me?" Yeah, I'd agree with Maria. I don't think it's going to happen within the timeframe that you suggested, and I certainly... So I think if I remember your math correctly, you're saying 10% of the banks would stay and 90% would go away. Is that right?

Rob Rubin (14:40):

Yeah, so a rough math, right? So let's say there's roughly 6,000-ish institutions that serve consumers. And to clarify, I mean credit unions, I don't mean other types of credit unions. So I'm talking about credit.

Tiffani Montez (14:55):

Oh, okay.

Rob Rubin (14:56):

There's like 1800 credit unions that serve communities that they operate in. So between that and the 45 or so 100 banks that exist today as depository institutions, I think that there'll be 500 of them or so by 2030.

Tiffani Montez (15:10):

Okay. Your math's looking better, Rob. I certainly don't think it's going to go down to be that low. I do think that there'll be some consolidation. I do think, to your point, that some of the bigger institutions with larger IT budgets will remain, but I do think that there are still are smaller financial institutions that serve a purpose in their communities. And I think that there will be some consolidation, I just don't think that they're going to completely go away or get to that 10%. Where I do think that they'll play a role is if we think about the concept that Maria has talked about with the bank in 2030 and we think about them being integrated into other ecosystems.

(15:53):

I do think that there's a place for them to be more embedded finance options and to be, we'll call them white label banking solutions, in the background. So they may not be at the forefront or be as tightly integrated into that community, but I do think that there is a purpose that they can serve, especially as it relates to some of the bigger, we'll call it technology brands, big tech that might need financial products and services to be able to build out if we start to think about wallet capabilities.

Rob Rubin (16:26):

Right. We have seen that with-

Tiffani Montez (16:26):

Yeah.

Rob Rubin (16:26):

... small banks getting involved. And we've also seen that when small banks get involved, it becomes difficult for them to manage, and they've had some trouble working with partners in that way as well. So I would guess by 2030 those troubles, those sort of regulatory guardrails that will help institutions operate effectively in a trustworthy manner will be in place. Do you think that?

Tiffani Montez (16:53):

I think so. I think there's always opportunity for new problems.

Rob Rubin (16:56):

Right.

Tiffani Montez (16:57):

But I think that the existing problems, hopefully, I hope for everyone's sake, have been ironed out and that people get a much greater understanding and appreciation for the amount of work that it takes to be able to establish third party relationships with this model, but also to be able to manage them and to understand that anytime you're in a third party relationship with someone that is continuing to add new relationships themselves, that due diligence isn't one and done. It's something that you have to continuously monitor and look for existing or new risk exposure.

Rob Rubin (17:30):

I guess that's my other point about why the banking world will shrink, is do you want take a risk with a small bank that's doing that, or do you want to go work with a bank that is already working with other companies doing these things? It all sort of spells that the big banks will be better at the tech integration with third parties. And maybe there'll be a few small banks that are good at behind the scenes plumbing, but I still say it's going to... A lot of banks that are serving older audiences, older customers, those banks are all going to wither away, whether it's in 2030 or 2034. We just don't need so many banks.

Maria Elm (18:10):

I think you're right. If you look at the recent banking as a service fiasco,-

Rob Rubin (18:16):

Right. Yeah.

Maria Elm (18:16):

... most of the banks getting in trouble have been smaller ones. And I think-

Rob Rubin (18:21):

Because they can't manage how many people, their partners activities effectively. They don't have the infrastructure.

Maria Elm (18:27):

I think you're right, but I don't know. As these smaller banks get more and more experience, and maybe even as they have these trials by fire, lessons are being learned, and I think for a lot of these smaller banks, the reason that they stepped into banking as a service in the first place is that they needed that revenue stream, right?

Rob Rubin (18:27):

Yeah.

Maria Elm (18:47):

It's not something they can just easily toss away. So I think there is going to be quite a concerted effort around, how do we do this better?

Rob Rubin (18:57):

But how many winners? Like 50. Right? You know what I'm saying? How many companies can win at that? If I'm looking for a banking as a service, am I going to look at a list that has 4,000 names on it, or am I going to look for the top 10 companies doing banks doing that today and start from there?

Maria Elm (19:14):

Yeah, no, agreed on that. I think consolidation across the board is with definitely what we're looking at.

Rob Rubin (19:21):

I'm declaring victory. I really am. I think that I've convinced everybody that they should sell their community bank stocks even before you look at the-

Tiffani Montez (19:35):

He's going for it.

Rob Rubin (19:35):

... the commercial real estate market portfolios. Well, on that note-

Tiffani Montez (19:41):

Just ended the world. On that note-

Rob Rubin (19:41):

Right. Well, there you go.

Tiffani Montez (19:41):

When you light the match... When you light the match-

Maria Elm (19:46):

Just to say to all the angry community banks, yell at Rob, not at us. Right?

Tiffani Montez (19:52):

Lit the match, threw it in the dumpster, and ran off.

Rob Rubin (19:54):

Right. I dated you guys for this. Well, I want to thank you for coming. It was a very hot episode. I think we can all agree.

Tiffani Montez (20:05):

It ended on a hot note for sure.

Rob Rubin (20:06):

It did end on hot note. I want to thank you guys for coming. It's always fun to have you on.

Maria Elm (20:13):

Thanks, Rob.

Tiffani Montez (20:14):

Yeah, thank you so much, Rob.

Rob Rubin (20:15):

And also thank you everyone for listening to The Banking and Payment Show, an eMarketer podcast. Also, thank you to our editor, Victoria. Our next episode is on September 10th, so be sure to check it out. See you then.