2000–01

MacroMonitor

PRODUCTS AND SERVICES ANALYSIS VOLUME

SRI CONSULTING BUSINESS INTELLIGENCE

333 Ravenswood Avenue
Menlo Park, California 94025

201 Washington Road
Princeton, New Jersey 08543

INTRODUCTION

The Consumer Financial Decisions (CFD) group's Product and Services Analysis Volume for the **2000–01 MacroMonitor** program covers the full range of retail and institutional household financial products and services. The five major sections correspond to the five basic financial needs: transactions, savings and investments, credit, protection, and information and advice. Each section presents information about products and services that serve one of those basic financial needs. The product subsections provide key product statistics, executive summaries, and analysis of survey results using CFD's proprietary Age Cohort, Socioeconomic Level, and Life Stage segmentation schemes (see Appendix F for segment definitions). We have included data from the **1996–97** and **1998–99 MacroMonitor**, where comparable. "n.a." indicates the item was not asked.

OVERALL TRENDS

The data in the **2000–01 MacroMonitor** survey reveal the details of the aggregate impact of social, political, and market events on the financial behaviors and attitudes of U.S. households. The sharp decline in the value of technology-related stocks in the months preceding the survey period has had a clear impact on both household behavior and attitudes as the economy edges toward the brink of recession. The initial moderate decline in interest in the stock market was immediate and carried over into the mutual fund market as well. Not surprisingly, it is the most affluent and financially sophisticated households that apparently had a plan in place for dealing effectively with a market downturn.

The decline in wealth among Boomer-generation households—a demographic force more likely to define economic circumstances than fall victim to them—will be only a temporary setback in the accumulation of assets. At the same time, many households, especially those in the lower half of the financial-resource distribution, may be facing a protracted period of uncertainty about their jobs and incomes in addition to their ongoing concerns about investment and retirement assets. And households in or near retirement that fell into complacency about the true nature of market risk are likely to face a retirement picture substantially different from the one they envisioned.

Historically low interest rates and money looking for an alternative to the stock market have kept a housing market boom alive in some areas of the country. The concern is that further easing of interest rates could lead to a "bubble" in real estate values. Should that bubble burst and housing values fall, the consequences for both consumers and lenders could be serious in light of consumers' increasing tendency to borrow against the equity in their homes.

The life insurance industry has seen an increased incidence of individual policy ownership, perhaps owing to a tendency of financially successful households to view life insurance as a necessary component of their overall portfolios, if not as a good way to save or invest. A protracted market downturn could result in a slowdown in new-policy sales and an increase in the number of households cashing in their cash-value policies. On the group life insurance side, increasing numbers of households—especially "mass-market" households—are comfortable with coverage available through employment or affiliation with affinity groups or associations. Participation in work-site marketing strategies, which often involve incorporation of group

policies as part of "cafeteria-style" benefit packages, is increasingly important for many life insurance issuers.

The economy and the financial-services industry are probably entering a period of contraction. With slow or negative growth comes an opportunity to streamline operations and reposition the full range of products and services. One of the key areas for restructuring is Internet services. Although some time will pass before online stock trading rebounds, use of the Internet for banking transactions, bill payment, and a variety of financial research and information activities will likely continue to grow, especially among relatively affluent households.

No matter what combination of products, services, and channels financial institutions pursue, the need to understand customers—their financial needs and motivations—is mission critical. In an uncertain environment, financial-services marketers need a tool that helps them bring understanding and clarity to marketing strategy and tactics. The **MacroMonitor** is that tool. This report summarizes the extensive coverage of consumer financial attitudes and behaviors that the **MacroMonitor** survey provides.

TRANSACTIONS

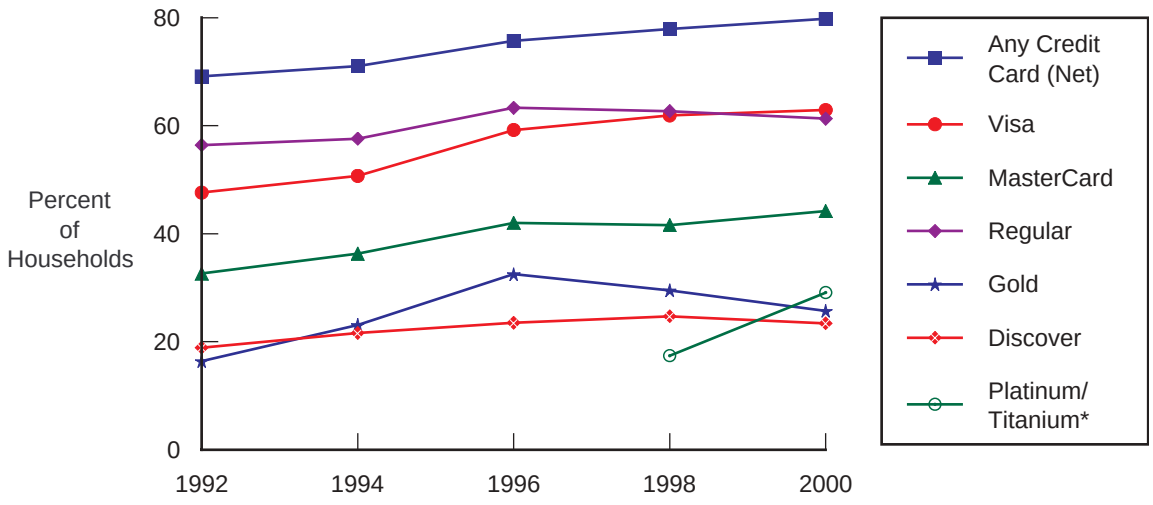
In the transaction world, the humble checking account—traditional anchor to the primary "banking" relationship—is undergoing rapid transformation in a world where consumers can do their banking in more ways and in more places than ever. Although many large institutions are battling to raise fees, a number of institutions still recognize the power of attracting demand deposits in the mass market and leveraging those assets into profitable credit and loan products. A substantial proportion of consumers are willing to accept low fees and expanded banking hours in lieu of the modest interest paid on interest-bearing checking accounts. The traditional depository-institution–based checking account is also under attack from the online market, where lower costs translate into higher interest rates paid on checking-account balances. On the investment side, asset-management and investment-management accounts automatically provide money market interest rates for funds until they are spent or used to fund some other investment. The result is that checking accounts at depository institutions are then often merely non-interest-bearing accounts with no or low fees and a reduced time on deposit for funds. In a world where all institutions are able to meet the full range of consumer financial needs equally, the brokerage firms stand to benefit at the expense of depository institutions, especially banks.

The introduction of platinum/titanium cards has been enormously successful, and this newer credit-card image concept is rapidly encroaching on the gold card's territory. On the positive side, one can make a case that more consumers with strong credit histories are opting for convenience, responding to the perceived prestige of upscale packaging, or taking advantage of features or rewards like airline miles and cash-back offers. Some evidence, however, suggests that consumers are revolving their accounts less and that switching accounts more often to take advantage of the ever-present teaser rate is becoming entrenched behavior. The credit-card industry must question behavior that is costly and fails to stimulate loyalty. And the increase in credit-card penetration overall implies that increasing numbers of households in the lower Socioeconomic Levels are receiving and responding to credit-card offers. In fact, one of the tools to gain increased penetration apparently is the offering of gold cards to households in the

subprime market. Increasingly, the interchange associations (Visa and MasterCard) seem to be the only institutions with realistic prospects for maintaining margins going forward.

The smart-card concept took a step forward with the successful introduction of the American Express Blue card. However, whether a meaningful number of consumers using these cards understand either the implications or the underlying technology is unclear. Until users have a wider range of use options, they are unlikely to see the full potential. About the role of credit cards on the Internet: One in four households now indicate that they are likely to use a credit card to pay for an Internet purchase in the next 12 months, and more than one in five report having done so in the past two years.

Figure 1
INCIDENCE OF OWNING CREDIT CARDS: IMPACT OF PLATINUM/TITANIUM CARD INTRODUCTION

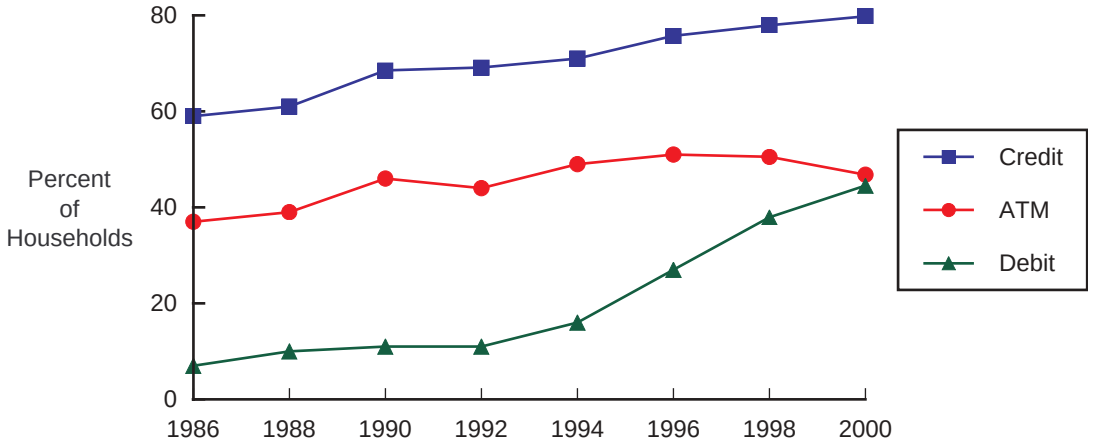


* Platinum only in 1998.

Base: All U.S. Households

The debit card, whose credibility is bolstered by the Visa or MasterCard logo, is replacing the ATM card as the primary means for electronic, noncredit transactions. Evidence suggests that a portion of consumers are using their debit cards actively to manage their credit-card debt—a positive step for consumers, great news for the interchange associations, but not good news for credit-card issuers relying on revolved balances to maintain profitability.

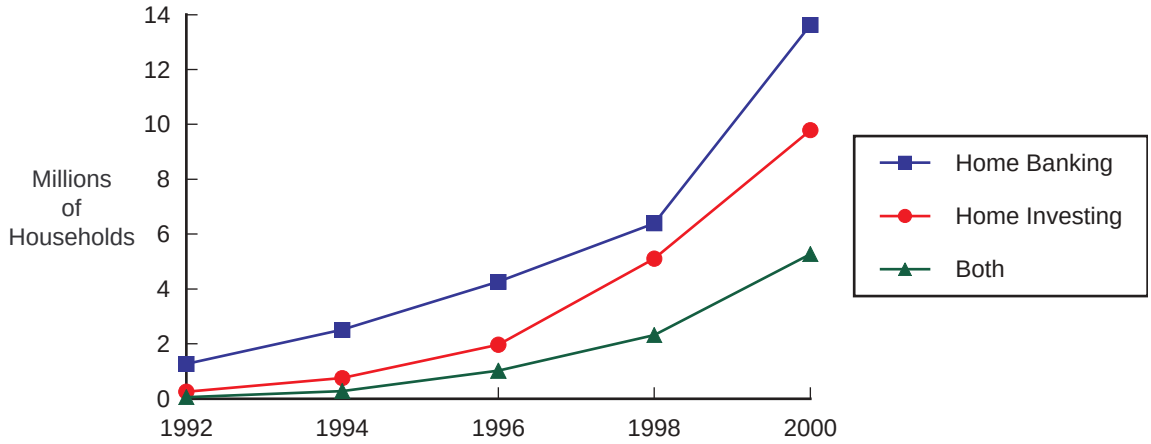
Figure 2
INCIDENCE OF OWNING CREDIT, ATM, AND DEBIT CARDS



Base: All U.S. Households

One of the recent developments in financial transacting—conducting home-based financial transactions via PC—is finally taking off. The rate of adoption of home-based investing (which caught on faster than home banking initially) increased slightly; the number of home-banking users increased dramatically. The decline in home-based investment activity going forward will very likely be sharp—only the most aggressive investors will be trading actively in an uncertain market—but it is reasonable to assume that the number of households taking advantage of improved online-banking services will build on the solid base established, albeit gradually, in the past decade. It will be interesting to see the impact of the market contraction on the "core" home-based financial services users—the early adopters who use both online-investing and online-banking services. If the products bundled with online-investment accounts are the right ones—and if customers have sufficiently integrated their cash management, bill payment, and non-stock–investment activities—a strong base of core users should remain as the postcontraction adoption phase develops.

Figure 3
INCIDENCE OF USING HOME-BASED FINANCIAL SERVICES

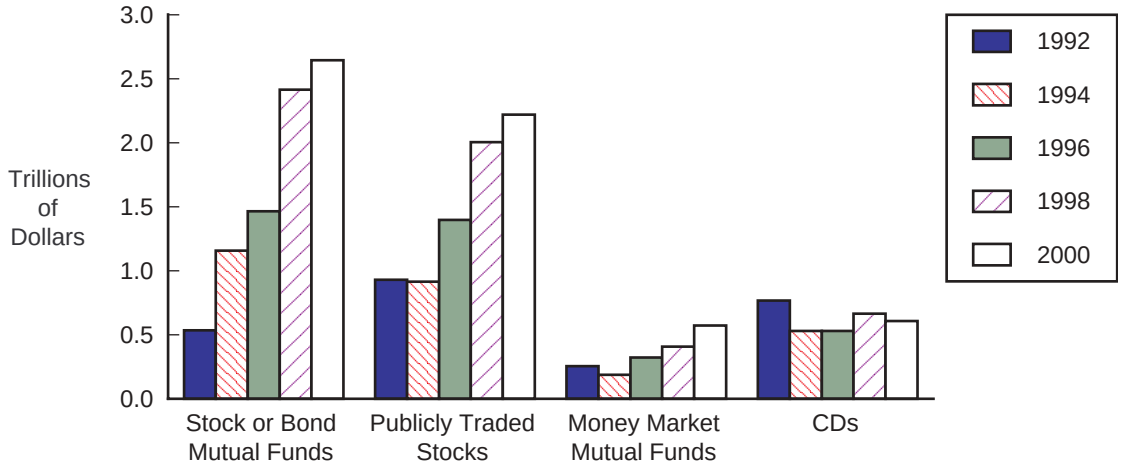


Base: All U.S. Households

SAVINGS AND INVESTMENT

If the biggest bubble bursts the loudest, the echo from the end of the bull market of the 1990s will sound for some time. The **2000–01 MacroMonitor** data represent a snapshot of the economy in the summer of 2000, after the end of the run-up in the Nasdaq but before market weakness infected the Dow Jones Industrial Average as well. Although aggregate household assets will eventually return to and surpass the level at the end of 1999, consumers' mind-sets about risk and debt will lead the market along a much different course as the economy begins its next expansion. The retreat in the value of both pretax and posttax investments will cause investors to rethink the roles of protection and credit in their overall financial strategies. How and when individual investors will regain confidence in the stock market are difficult to predict.

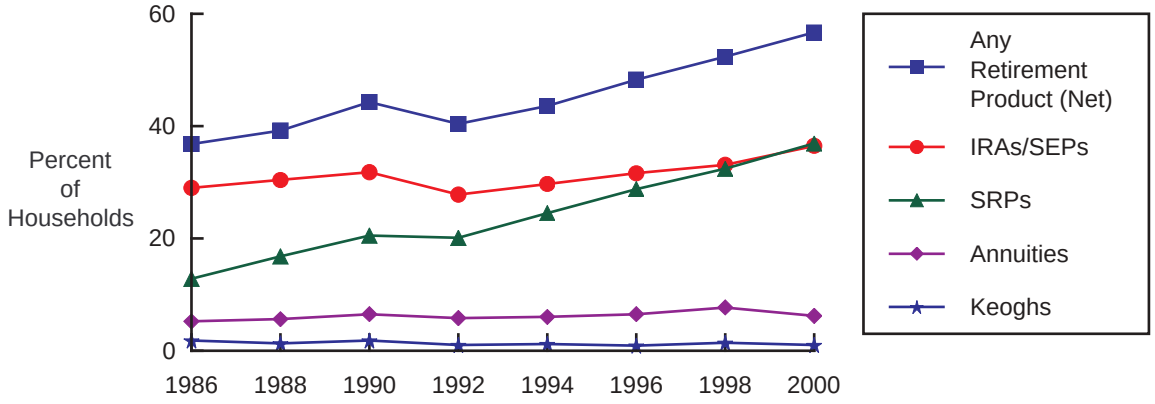
Figure 4
AGGREGATE DOLLARS IN SPECIFIC INVESTMENTS



Base: All U.S. Households

Although retirement assets are in constant and sometimes rapid flux, consumers are increasingly conscious of the need to plan, save, and invest for the future. The increase in the overall incidence of retirement product ownership is driven by the proliferation of salary-reduction plans (SRPs), which are now held by as many households as own an individual retirement account (IRA) or simplified employee pension (SEP) plan. The number of households participating in SRPs will likely continue to grow as plan managers find ways efficiently to meet the needs of smaller companies. And the penetration for IRAs will also increase as the Boomer generation seeks a repository for mandatory or discretionary distributions.

Figure 5
INCIDENCE OF OWNING RETIREMENT PRODUCTS

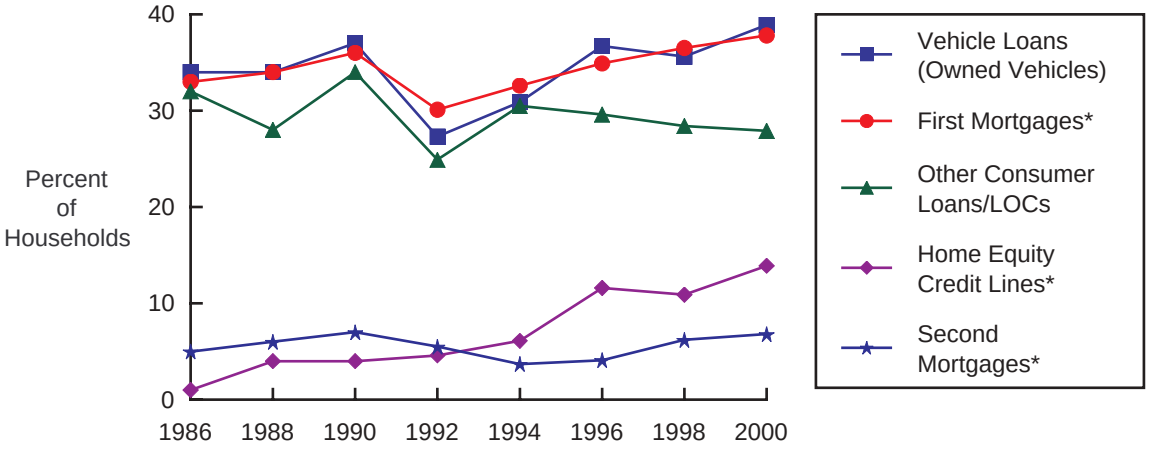


Base: All U.S. Households

CREDIT

All forms of home-equity–based credit gained penetration in the past two years. As interest rates decline to historically very low levels, renters are flocking to become homeowners and homeowners are rushing to lock in rates for refinancing. But, at some point, the potential for refinancing diminishes, and the effects of the current market contraction will spread to the housing and construction industries—intensifying the potentially negative effect on the home-loan market. At the same time, lower interest rates could stimulate additional demand for home equity loans and add fuel to growing concerns that, should a bubble develop in the housing market as stock market money looks for other opportunities, many borrowers (and lenders) could find themselves in a difficult situation. Institutions marketing vehicle financing have also benefited substantially from lower interest rates and an overheated economy. The outlook for the next year or two is less optimistic.

Figure 6
INCIDENCE OF OWNING CREDIT PRODUCTS



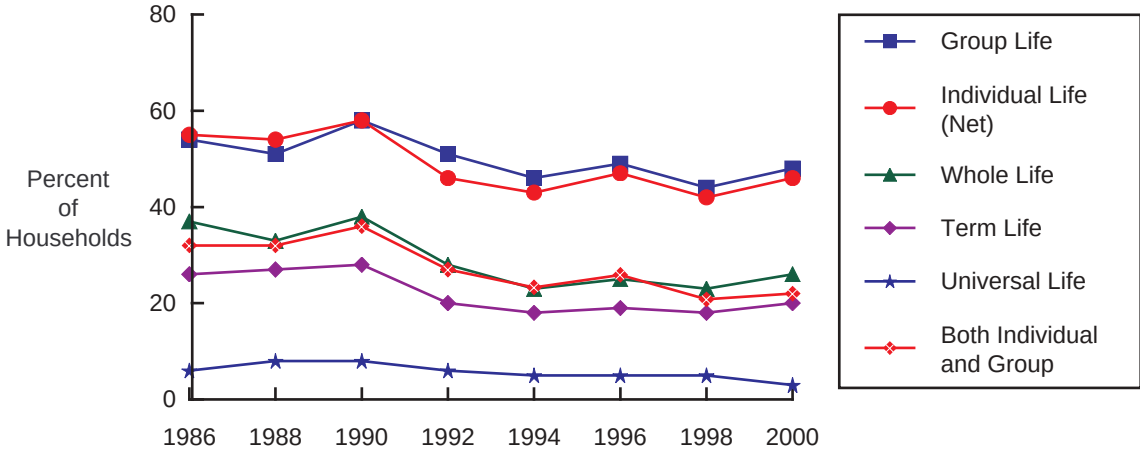
* On primary residence.

Base: All US Households

PROTECTION

The news from the **2000–01 MacroMonitor** survey about life insurance is generally good. The incidences of both individual and group life insurance increased slightly from 1998 to 2000. Several forces are acting on the individual life insurance market. In one case, affluent households that are successful in the stock market might believe that they are in a position to self-insure and prefer to keep their money in the market rather than paying some of it out in premiums or investing in a cash surrender-value policy. The market slowdown might lead those investors to rethink the role of life insurance in their financial plans. On the other hand, investors caught off guard in the market might believe that individual life insurance is a luxury they can now ill afford. And, in general, U.S. households are increasingly likely to purchase term life insurance coverage through their employer, an association, or an affinity group.

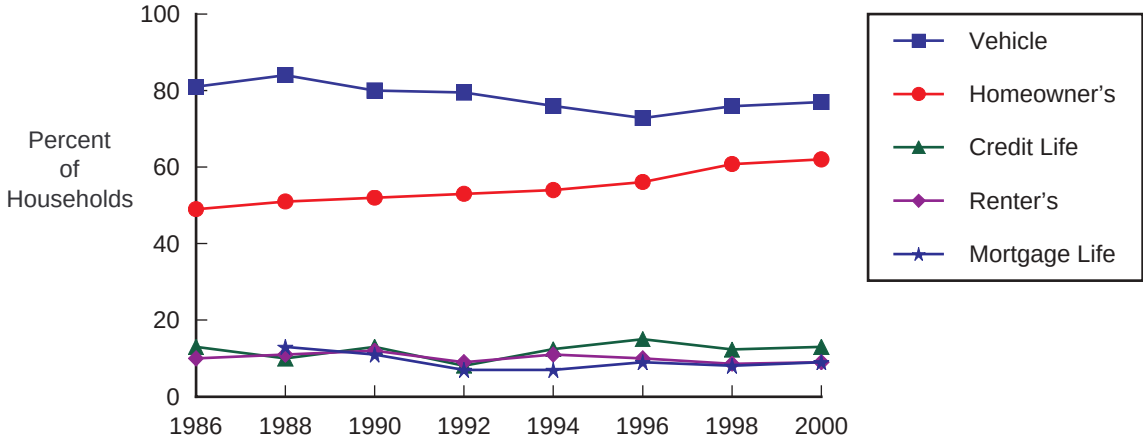
Figure 7
INCIDENCE OF OWNING LIFE INSURANCE PRODUCTS



Base: All U.S. Households

The surge in mortgage origination activity and vehicle sales has helped maintain strong demand for property and casualty insurance (P&C). A corresponding increase exists in consumers' willingness to receive and respond to direct mail, telephone, or Internet offers for these products.

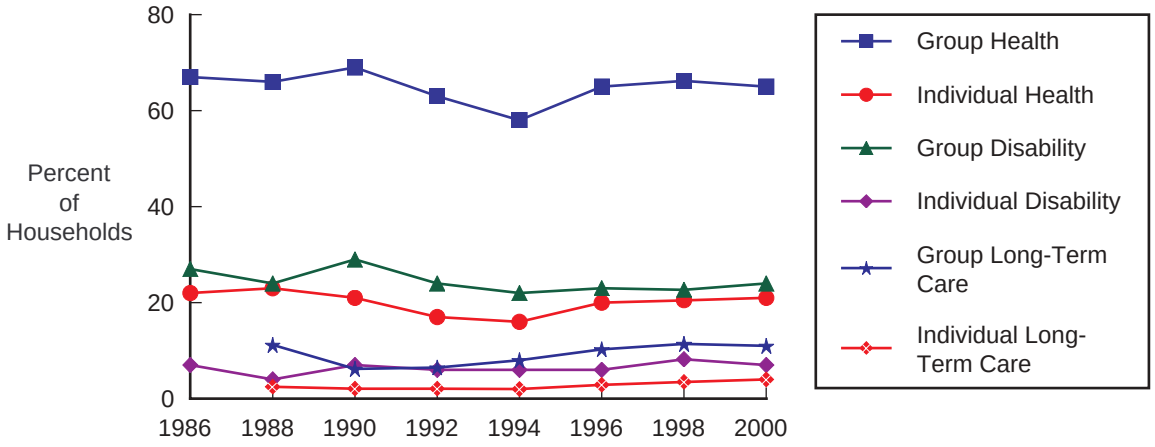
Figure 8
INCIDENCE OF OWNING PROPERTY/CASUALTY INSURANCE PRODUCTS



Base: All U.S. Households

Efforts to provide health insurance coverage for all citizens and the importance of health insurance as an employment benefit have helped keep the incidence for group health insurance at a high level in spite of ever-increasing costs of coverage. The trend in incidences for disability and long-term-care policies remains fairly flat. As the Boomers move closer to retirement, awareness of and demand for long-term care protection should increase.

Figure 9
INCIDENCE OF OWNING HEALTH AND HEALTH-RELATED INSURANCE PRODUCTS



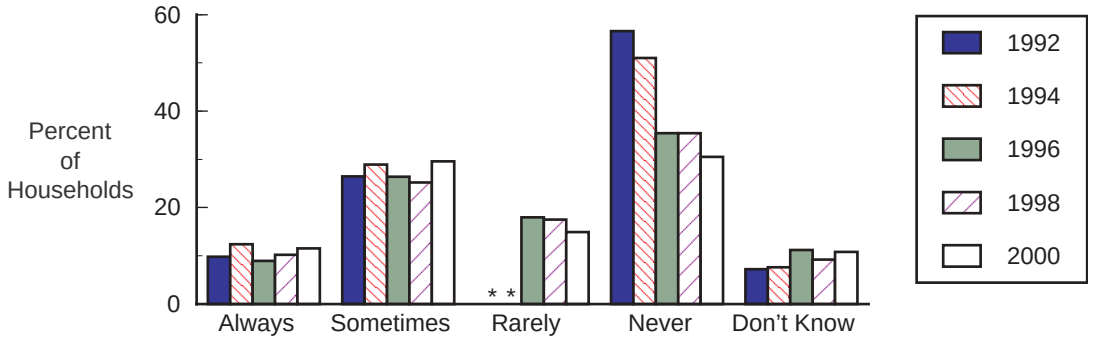
Base: All U.S. Households

INFORMATION AND ADVICE

The proportion of households that report getting advice before making a financial decision "always" or "sometimes" increased from 35% in 1996 and 1998 to 42% in 2000. And the number of households reporting that they "never" get financial advice has nearly halved since 1992. These insights into consumers' behaviors reflect the reality of an increasingly complex and uncertain financial environment.

Further declines in the stock market and volatility that has spread even into the bond market will cause a massive rethinking of the role of advice in consumers' financial plans and activity going forward. Many investors who had well-compensated financial advisors are now looking at retirement asset balances that are half what they were a year ago. These households might view their advice-seeking efforts as an error in judgment, concluding that they simply picked the wrong advisor(s), and will return to the market poorer but wiser. Or they might simply forsake the lure of what now must appear to be a much riskier option than they formerly believed the stock market to be. On the other hand, large numbers of investors who felt confident enough to self-direct their investments might decide that they would have fared much better if they had sought professional advice. On net, the increase in perceived complexity and risk should drive more investors to seek professional financial advice.

Figure 10
INCIDENCE OF RECEIVING ADVICE BEFORE MAKING MAJOR FINANCIAL DECISIONS

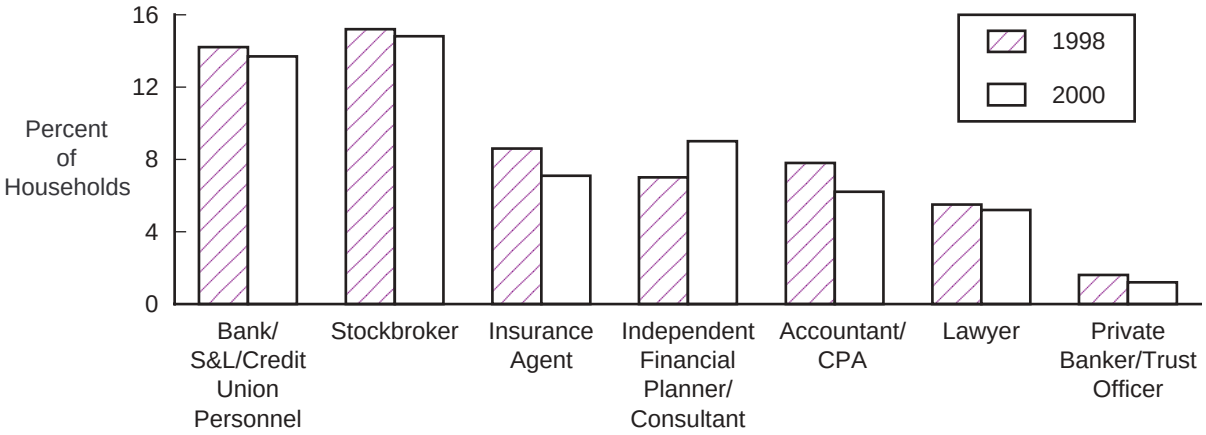


* Category not included in 1992 and 1994.

Base: All U.S Households

The years 1998 to 2000 marked a period of rapid growth for financial planners and the financial-planning industry. In the 2000 survey, independent financial planners and consultants were named as advice sources by a greater percentage of households than in 1998. Although insurance agents and accounts and CPAs lost ground, other types of advisors held nearly even. The next measurement of the types of advisors that households use for advice could yield some surprises. In hindsight, the more conservative institutions (banks and insurance companies) look relatively smart, and all the major players in the insurance industry are in the process of aggressively remaking their companies and images to reflect their attempted metamorphosis into full-spectrum financial-services providers. The more aggressive, investment-oriented firms are reeling from sharp setbacks to business and, potentially, credibility.

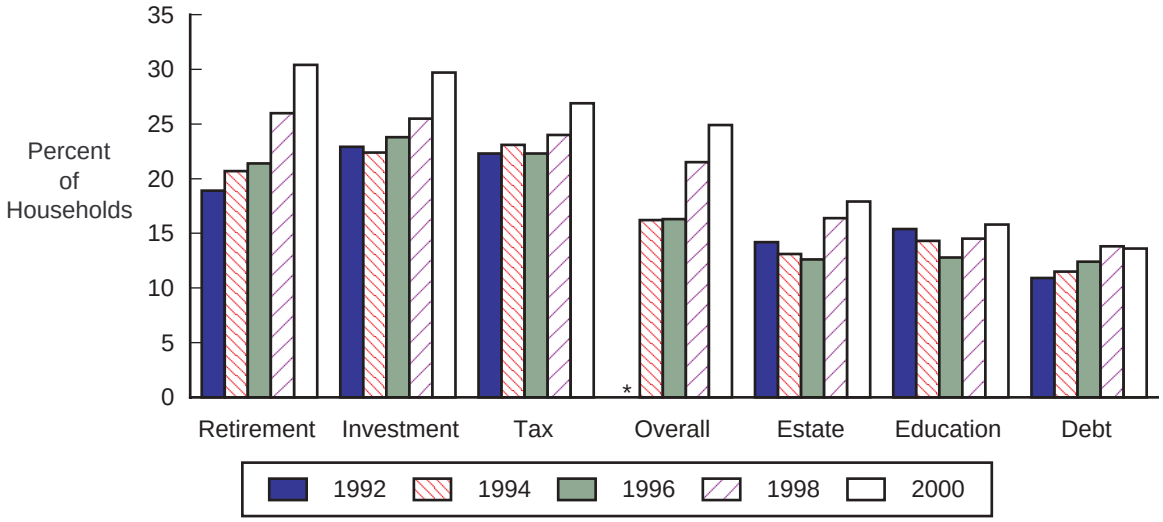
Figure 11
TYPES OF INDIVIDUALS USED FOR PERSONAL FINANCIAL ADVISORS IN LAST 2 YEARS



Base: All U.S. Households

Among the advice categories that households are “very” or “somewhat” likely to use in the next 12 months, retirement advice, which in 1992 ranked third behind investment and tax advice, was most frequently named in 2000 (30% of all U.S. households). Except for the incidence of debt advice, incidences of potentially using each type of advice increased. These results suggest the enormity of the impact the post-WWII baby boom is having on the economy and the financial-services industry. The parents of the Boomers are leaving their children estates that require specialized attention, and the children of the Boomers are facing ever-higher education cost and need guidance. As household finances become more complex, increasingly sophisticated assistance is necessary to manage taxes, investments, and retirement assets. And individuals living longer and healthier lives will require innovative financial products to meet their extended and evolving needs.

Figure 12
TYPES OF ADVICE VERY OR SOMEWHAT LIKELY TO OBTAIN IN NEXT 12 MONTHS



* Category not included in 1992.

Base: All U.S. Households

CONTENTS

SAVINGS AND INVESTMENTS

CREDIT

INFORMATION AND ADVICE

BALANCE SHEETS

APPENDIXES

Contacts for more information:

	Telephone	Fax	E-mail
Larry Cohen	+1 609 734 2048	+1 609 734 2094	lcohen@bic.sri.com
Chris Lawler	+1 609 734 2218	+1 609 734 2094	clawler@bic.sri.com
Pam Shaw	+1 650 859 2746	+1 650 859 4544	pshaw@bic.sri.com
Kathryn Spring	+1 813 236 8720	+1 813 238 7434	kspring@bic.sri.com
Chris Taylor	+1 609 720 4808	+1 609 734 2094	ctaylor@bic.sri.com
Maria Woodward	+1 703 255 0685	+1 208 978 3877	mwoodward@bic.sri.com