2004–05

MacroMonitor

PRODUCTS AND SERVICES ANALYSIS VOLUME

SRI CONSULTING BUSINESS INTELLIGENCE

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INTRODUCTION

The Consumer Financial Decisions (CFD) group's Products and Services Analysis Volume for the **2004–05 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 analyses of survey results using CFD's proprietary Age Cohort, Socioeconomic Level, and Life Stage segmentation schemes (see Appendix F for segment definitions). We also include a Balance Sheets section summarizing, among other elements, U.S. households' assets, liabilities, and net worth. Where comparable, we include data from the **2000–01** and **2002–03** **MacroMonitor**s. The abbreviation *n.a.* indicates that we did not ask the item.

OVERALL TRENDS

For the first time since the **MacroMonitor** program began in 1978, the **2004–05 MacroMonitor** data show significant shifts in almost every area of financial services. After a decade of riding a financial roller coaster—careening upward in the go-go economy of the 1990s, falling steeply when the market bubble burst, and now lurching uncertainly in a so-so economy beset by major corporate malfeasance—U.S. households now appear to be making some radical changes. They are changing the level of their exposure not only in the financial markets but also in their use of financial intermediaries and how they access financial services. Are these changes simply a temporary pause in consumer financial behavior or do these changes usher in the beginning of an entirely different way in which consumers meet their financial needs?

The following summary findings highlight the major changes in consumer use of various financial products and services:

- *Transactions*. Use of the Internet and debit cards for financial transactions is increasing; ATM transaction activity and ownership of credit cards show signs of decline.
- *Savings and investments*. Market penetration of most savings and investment products outside retirement accounts has decreased; U.S. households show lower tolerance for risk in the financial markets.
- *Credit*. Overall incidences of having various types of credit products remain steady, but debt balances among households with debt have increased considerably, even among Retired households.
- *Insurance*. Life and property and casualty insurance data remain stable, but health-insurance coverage has significantly declined for most household segments.
- *Information and advice*. Consumers show a conflicting pattern of increased need and desire to obtain help from financial professionals and a decrease in actual use of financial advisors. Consumers' interest in financial topics and their use of various sources of financial information also fell.

- *Balance Sheets*. The 2000–04 period shows a lack of growth in overall households' financial status. Median total assets stalled at $139,000 in 2004 (compared with $141,000 in 2002). Median total financial assets declined by 7% to $25,000. Despite rising real estate values, U.S households' net worth still fell, from a median of $85,000 two years ago to the current median of $81,000.

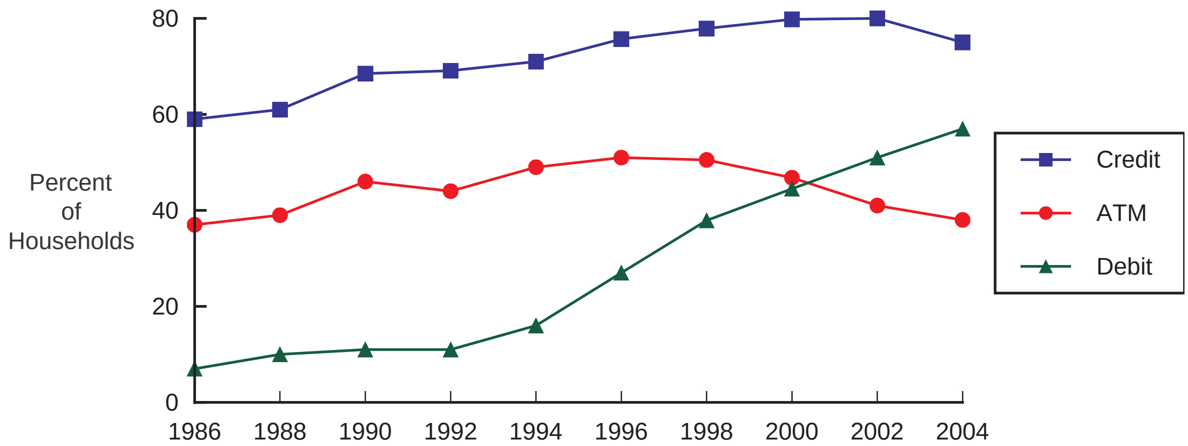
Rising interest rates, increasing energy prices, and the potential for a real estate market-bubble burst portend difficult times ahead for highly leveraged households. Adding to this environment is the marked change in consumers' level of trust in financial institutions and professionals in the aftermath of recent major financial scandals. Financial institutions thus face a couple of challenges in the coming years: how to meet the financial needs of U.S. households faced with a weakened balance sheet and how to deliver appropriate financial products and services in line with the major shifts in consumer preferences at a time when consumers are especially wary of the trustworthiness of financial institutions and professionals.

TRANSACTIONS

Consumers continue to move away from cash and toward other financial media to meet their transaction needs. More households are enrolling in automatic payment services and using debit cards. At the same time, market penetration of credit cards shows initial signs of decline, although frequency of use among credit-card owners continues to increase.

The majority of households (57%) now own debit cards, compared with 45% in 2000. The increased market penetration of debit cards, however, appears to be occurring at the expense of ATM cards. ATM cards continue to lose market share, down to 38% in 2004, compared to 47% in 2000 and 50% in 1998. The credit-card market, meanwhile, is showing signs of maturity. The incidence of having any type of credit card among all U.S. households has declined to 75% in 2004, from 80% in 2002 and 2000.

Figure 1
INCIDENCE OF OWNING CREDIT, ATM, AND DEBIT CARDS

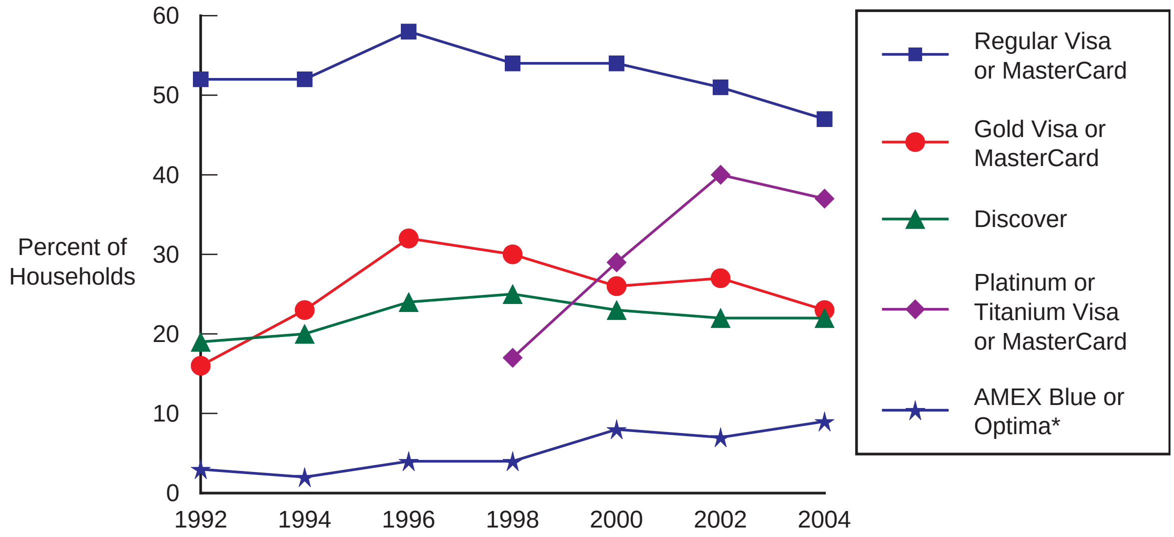


Base: All U.S. Households

Visa and MasterCard continue to hold the lion's share of the credit-card business, with an incidence of 60% and 45%, respectively, among all U.S. households. Ownership of regular Visa or MasterCard credit cards continues to decline, with less than half of all U.S. households (47%) now having this type of card. The incidence of owning Visa/MasterCard Premium cards remained level between 2002 (48%) and 2004 (50%), but still up from 44% in 2000. Growth primarily comes from the Platinum and Titanium cards. Although these cards' market share declined slightly (by three percentage points) in the past two years, Visa/MasterCard Titanium and Platinum cards have experienced a steep growth curve, jumping from 17% in 1998 to the current 37% incidence. Gold cards, meanwhile, continue to show decline in market penetration, falling from a high of 32% in 1996 to the current 23% incidence.

The incidence for owning a Discover card remained virtually unchanged since 2000: 22% in 2004. American Express (Blue/Optima) continues to increase its share of the credit-card market, albeit at a relatively small incidence of 9% in 2004. Because banks issuing cards through Visa and MasterCard are no longer prohibited from teaming up with any other network—such as with American Express or Discover—consumers now have even more choices of plastic, making the credit-card market ever more fiercely competitive.

Figure 2
CREDIT-CARD OWNERSHIP

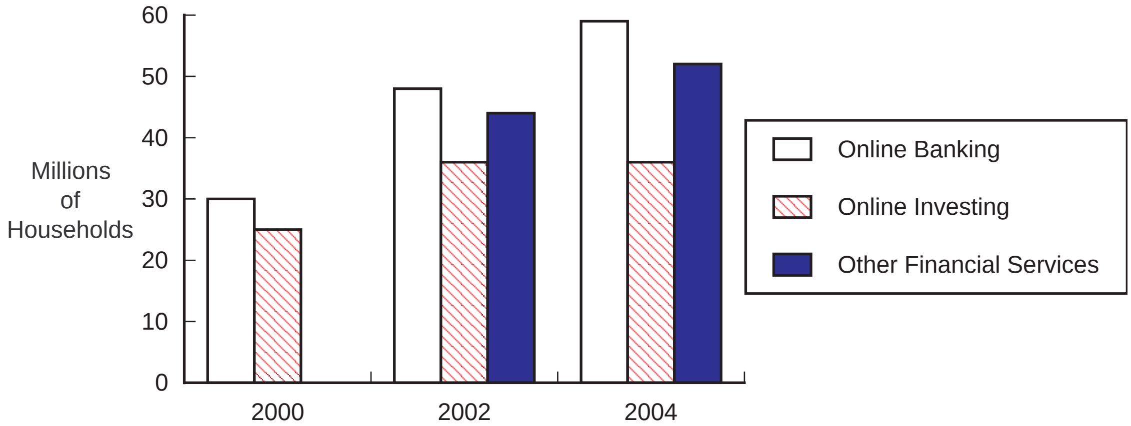


* 1992 to 1998 includes Optima only.

Base: All U.S. Households

Use of online financial services continues to grow, although the growth curve appears to be leveling off. Online banking is currently serving as the engine of growth because the current lackluster returns in the investing arena have dampened household enthusiasm for online investing. Among households with Internet access, about six in ten now conduct some banking online, compared with 48% in 2002, an increase of 23% in the two-year period. The incidence for online investing, in contrast, remained unchanged during this same period: 36%. Use of other financial online services, such as for obtaining loans and insurance or filing taxes, increased by 18%, from 44% in 2002 to 52% in 2004. Expanding availability of online financial services has made the Internet an expected delivery medium rather than a special option.

Figure 3
INCIDENCE OF USING ONLINE FINANCIAL SERVICES



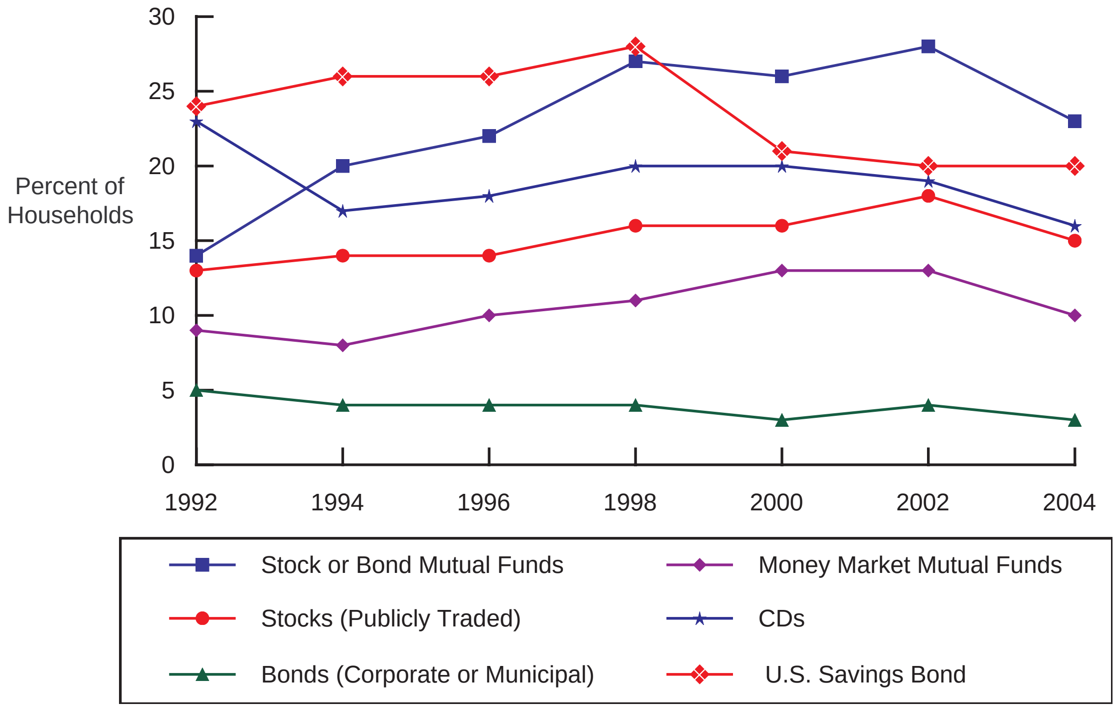
Base: Have Internet Access

Note: 2004 and 2002 data include access to the Internet via any electronic device from any location; 2000 data are limited to Internet access using a computer at home.

SAVINGS AND INVESTMENTS

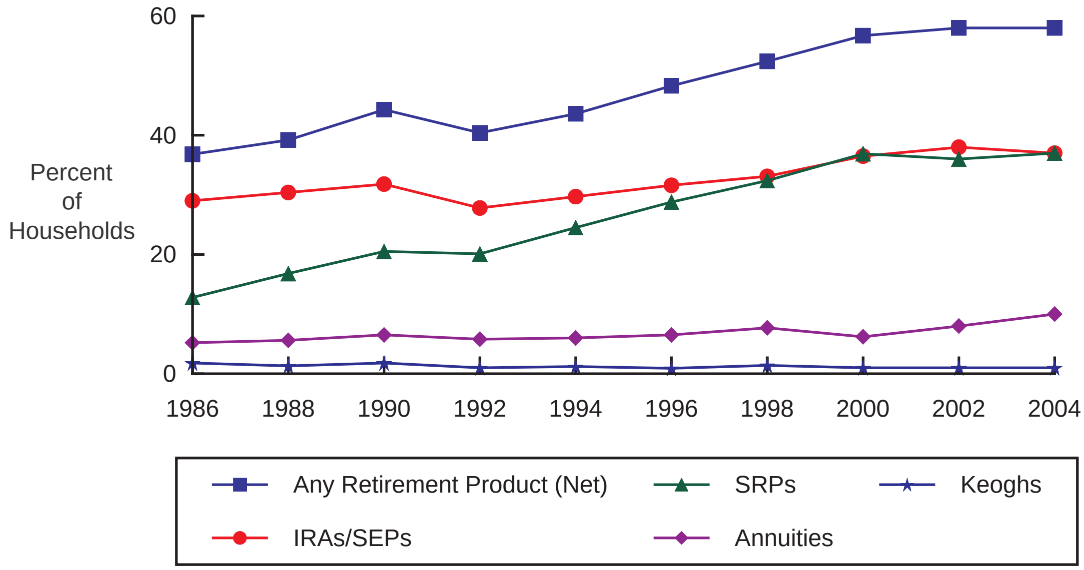
U.S. households appear to be pulling back from owning various savings and investment products. The low returns earned on CDs have resulted in the incidence for this product falling to 16% of all U.S. households in 2004, from about 20% in the previous three survey years. Savings bonds remain flat at 20% incidence. Money market mutual funds also experienced a three-percentage-point decline to 10% in 2004. Stock and bond mutual fund ownership sharply declined, from a high of 28% in 2002 to 23% in 2004. The incidence of owning publicly traded stocks similarly experienced a decline, from 18% in 2002 to 15% in 2004. Bonds remained level at a low 3% incidence of all U.S. households.

Figure 4
OWNERSHIP OF ASSET PRODUCTS OUTSIDE RETIREMENT ACCOUNTS



The overall incidence of retirement accounts (excluding pension plans) remained unchanged at 58% of all U.S. households. No significant movements occurred between 2002 and 2004 with regard to ownership of IRAs/SEPs, salary-reduction plans (401k, 403b, or 457), or Keoghs. Incidence of owning individual annuities, however, is steadily increasing, albeit at a relatively low incidence: 10% of U.S. households own this product in 2004, compared to 8% in 2002 and 6% in 2000.

Figure 5
INCIDENCE OF OWNING RETIREMENT PRODUCTS

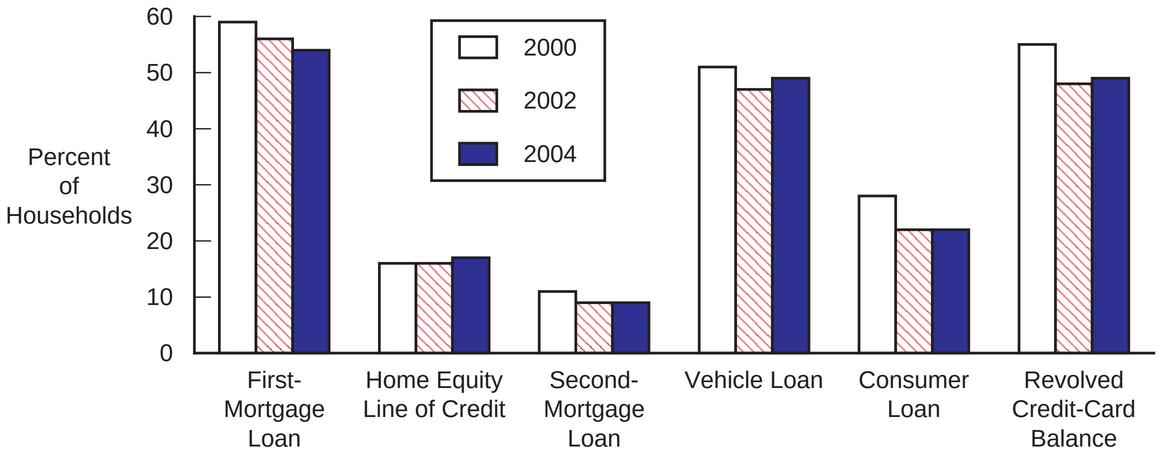


Base: All U.S. Households

CREDIT

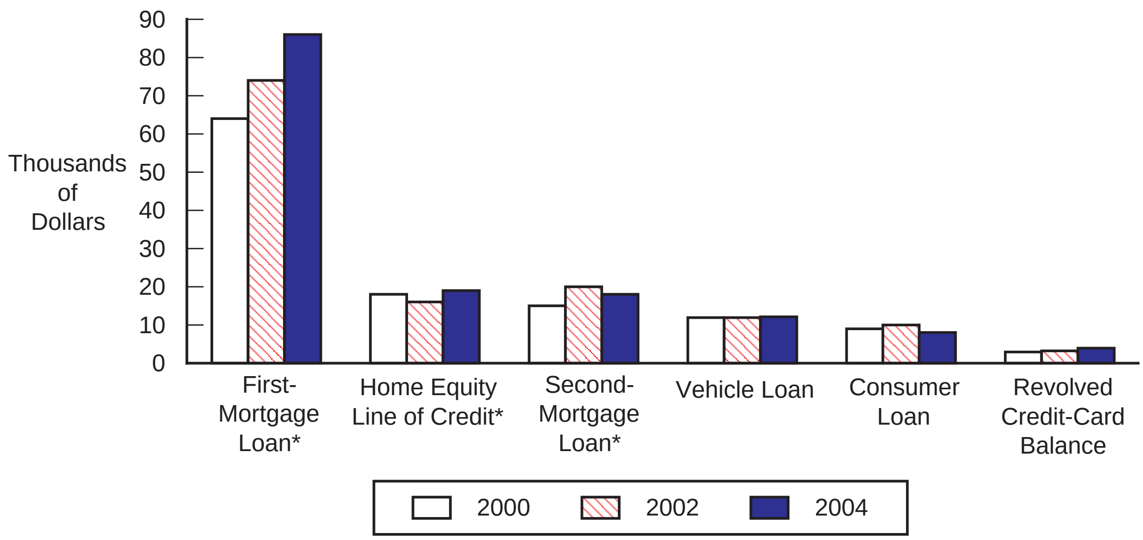
Incidences of households with outstanding debt on their primary home, vehicles, and other types of consumer loans remained steady in the past two years. But median balances outstanding have increased considerably. Spurred by low-interest-rate financing and other innovative mortgage products, the median amount owed on all loans on primary residences increased by 18%—from $74,000 in 2002 to $87,000 in 2004. Median balances on first-mortgage loans and home equity credit lines reflect this overall increase in amounts owed. Homeowners have a first-mortgage median balance of $86,000 in 2004, up by 16% from two years ago; homeowners with a home equity credit line saw their median balance increase by 19% during this same period, from $16,000 to $19,000. The median balance for second mortgages or home equity loans, however, fell by 10% to $18,000 in 2004.

Figure 6
INCIDENCES OF OWNING CREDIT PRODUCTS



Bases: Mortgage Products: Homeowners; Vehicle Loans: Vehicle Owners; Consumer Loans: All U.S. Households; Revolved Credit-Card Balances: Credit-Card Owners

Figure 7
MEDIAN BALANCE OWED ON VARIOUS CREDIT PRODUCTS



* Own primary residence.

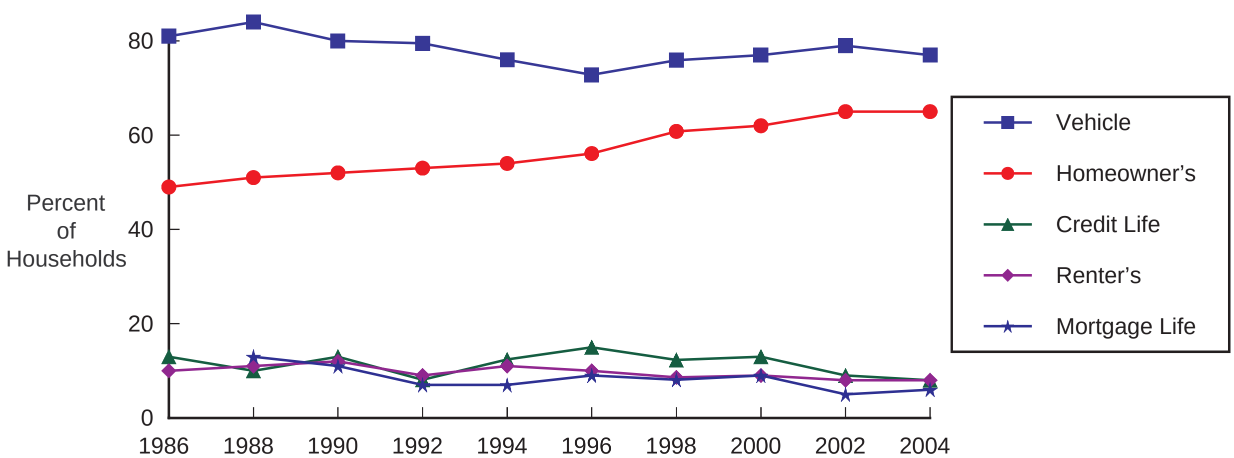
Base: Households That Own Product and Have Outstanding Debt

PROTECTION

Although the number of households with property and casualty insurance has been creeping up (from 104 million households in 2000 to about 109 million households in 2004), the level of market penetration has remained stable in the past four survey waves (90% in 2004). Almost eight in ten U.S. households have vehicle insurance, and more than six in ten have homeowner's insurance. Fewer than one in ten have credit life (8%), renter's (8%) or mortgage life (6%) insurance.

Figure 8

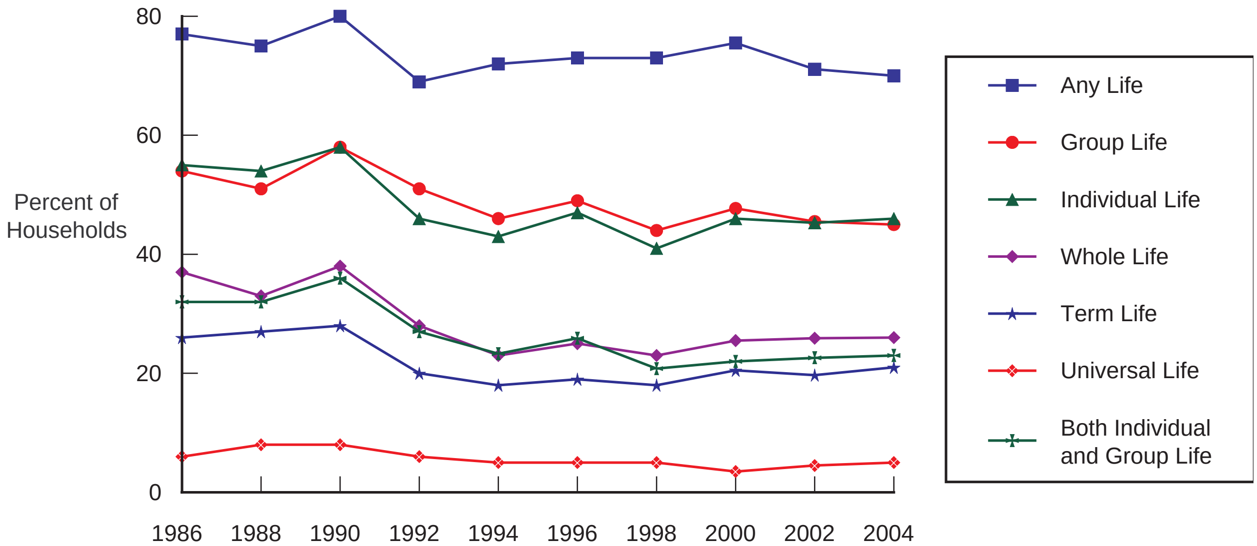
INCIDENCE OF OWNING PROPERTY OR CASUALTY INSURANCE PRODUCTS



Base: All U.S. Households

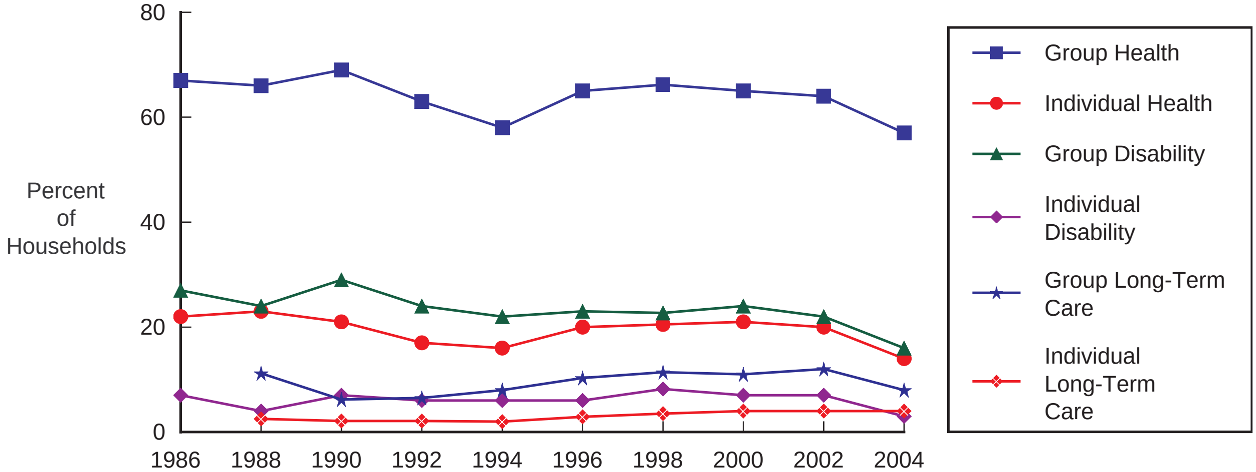
The life insurance incidence overall has eroded since 1990 when 80% of all U.S. households carried life insurance coverage. But in the past decade, market penetration has remained relatively stable, with about seven in ten U.S. households owning some type of life insurance. The incidences of having group or individual coverage are about the same: 45% and 46%, respectively, in 2004. As in past survey waves, a slightly higher proportion of households have whole life compared to term (26% and 21%, respectively, in 2004). Just 5% of all U.S. households have universal life coverage in 2004, the same as in 2002.

Figure 9
INCIDENCE OF OWNING LIFE INSURANCE PRODUCTS



Unlike the stability in the property and casualty and life insurance areas, the incidence of all U.S. households having any type of health or health-related insurance has significantly declined in the past two years, from 84% in 2002 to 71% in 2004. Fewer than six in ten households (57%) now have group health insurance, compared with 64% in 2002. The incidence of households having individual health coverage is down to 14% of all U.S. households, from 20% in 2000. Disability and long-term–care insurance similarly show declining trends (although use caution in interpreting actual data because of changes in the position and wording of the questions in 2004 compared to questions in previous years).

Figure 10
INCIDENCES OF HEALTH AND HEALTH-RELATED INSURANCE



Base: All U.S. Households

INFORMATION AND ADVICE

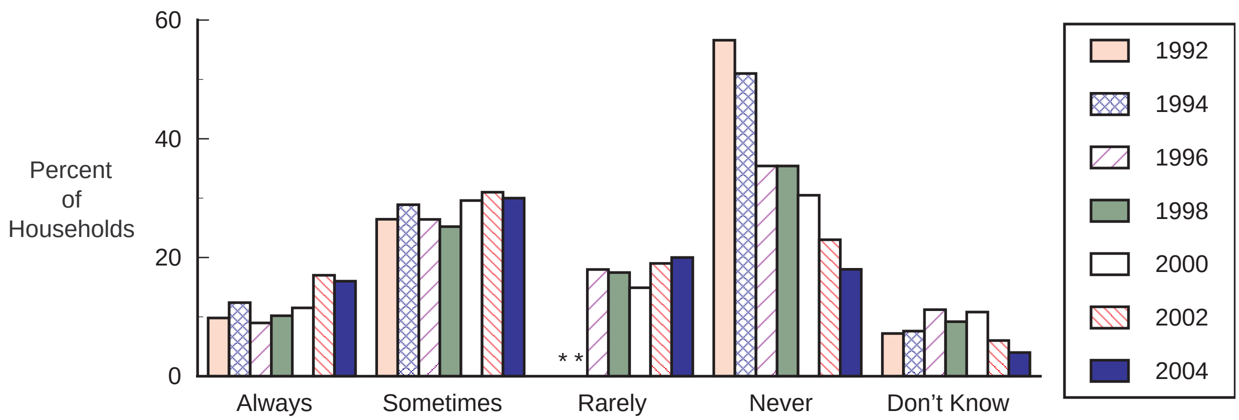
Given the complexity of financial products, the uncertainty of the financial markets, and the increasing time necessary to manage one’s personal financial affairs, it is no surprise that the proportion of U.S. households that say they never seek financial advice has dramatically decreased in the past decade, from 51% in 1994 (57% in 1992) to less than one-fifth of all households (18%) in 2004. However, the percentage of households that report that they receive advice (always, sometimes, or rarely) before making major financial decisions has stalled between 2002 and 2004 after making solid gains in previous years. (See Figure 11 below.)

Adding to this conflicting pattern is the apparent decline in use of most financial intermediaries (see Table 1 below). Households that receive advice used a bank advisor more in the past two years (15%) than any other type of professional. However, the incidence of using a bank advisor has declined from 20% in 2000 and 17% in 2002. Use of a full-service stockbroker has also declined, from 16% to 11% during the 2000–04 period. Similarly, use of an independent financial planner or consultant fell from 17% in 2000 to 10% in 2004.

Reflecting this overall trend in decreased incidences of obtaining advice, fewer households obtained advice for virtually every type of advice in 2004. Likewise, consumers’ use of various sources of financial information (books, magazines, newspapers, and so on) similarly declined. The growth in the overall incidences of households that hardly trust various financial institutions and intermediaries is partly explained by the conundrum among consumers that they need advice, yet are reluctant to take action. It is also attributable to the growing disengagement of consumers from their financial services. If they don’t know what to do, and they don’t know whom to trust, and it seems like everyone is telling them that they need to save more, invest more, and plan more—especially after the drubbing that most consumers took in the market in

2000 and the corporate malfeasance and global uncertainties—consumers may be choosing to do less or nothing because at least then they believe that they are not making their situation worse!

Figure 11
INCIDENCE OF RECEIVING ADVICE BEFORE MAKING MAJOR FINANCIAL DECISIONS



* Category not included in 1992 and 1994.

Base: All U.S Households

Table 1
INTERMEDIARIES USED AS FINANCIAL ADVISOR IN LAST TWO YEARS
(Percent of Households)

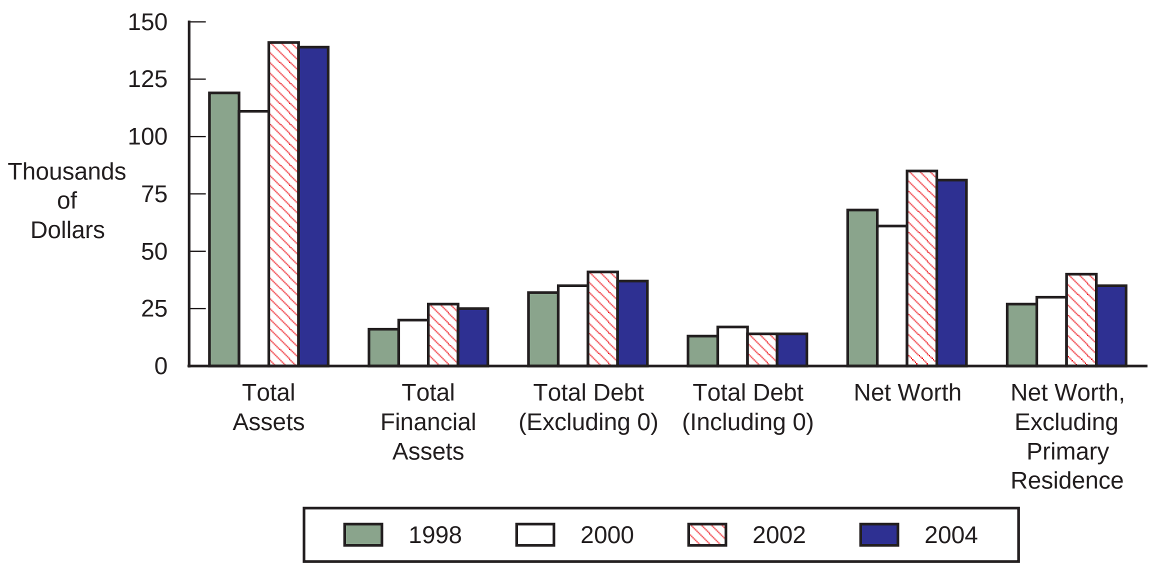
Intermediaries	2004	2002	2000
Bank or S&L officer or investment advisor	15	17	20
Full-service stockbroker	11	14	16
Independent financial planner or consultant	10	13	17
Accountant or CPA	13	12	11
Lawyer	9	11	9
Mutual fund company investment advisor	7	8	10
Certified financial planner	8	7	n.a.
Insurance company agent	7	8	} 13
Independent insurance agent	7	7	
Credit union officer/investment advisor	6	7	6
Private banker/trust officer	4	4	2
Discount stockbroker	2	3	3

Base: Receive advice (always, sometimes, or rarely) before making major investment decisions.

BALANCE SHEET

Households' financial status has been lackluster in 2004, with median total assets remaining flat at $139,000 ($141,000 in 2002). Despite rising mortgage debt, total liabilities actually decreased by 10%, from a median $41,000 to $37,000 between 2002 and 2004. Nonetheless, U.S households' net worth still fell, from a median of $85,000 two years ago to the current median of $81,000. Households' median net worth, excluding primary residence, decreased by 13% for the same period, from $40,000 down to $35,000.

Figure 12
BALANCE SHEET: MEDIAN VALUE OF TOTAL ASSETS AND DEBT*



* Unless specified, median values include negative and 0.