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Are you courting the Mass Affluent?

Wanted: male or female in their prime, full-time job, perhaps married with a couple of children. In the past, they borrowed money but their credit needs are diminishing. They have a few investments — maybe a pension, perhaps some shares or a unit trust. They know they need to get a better handle on this.

Industry studies consistently demonstrate that when customers reach this profile, they either leave their bank or start a relationship elsewhere with a specialist in investments — either an Independent Financial Adviser, an investment management company or an on-line self-service offer.

"We had it, where did it go?"

A random sample of cheques drawn for more than \$10,000 from 20 branches of a very large North American bank revealed that 42% of cheques this size transferred money out to brokers, e.g. Merrill Lynch. They know this is only the tip of the iceberg as more money is moved by direct transfer than cheque.

This is one reason why banks in the US, the UK and Europe are scrambling, developing strategies to get these customers before they defect or lure them back if they have.

The stakes are high. The segment is aptly described as "mass affluent". Using a definition of £50,000 to £500,000 in investable assets, it is a mass of 3 million people in the UK, 15 million in the US and, in spite of recent declines in the markets, still growing. Similar figures will apply throughout Europe. Sanford Weill, announcing Citigroup's latest assault on Europe's mass affluent bluntly said, "It's where most of the money is."¹



Why do clients leave?

Most studies show that they leave for service, credibility, returns and choice.

In a recent focus group of high value bank clients, participants were asked "What does the IFA, broker or investment management company give you that we do not?"

They replied:

- Personal attention
- Superior advice and challenging ideas
- Fund returns
- Range of investment options

In contrast the same clients said they saw their banks as:

- Passive, reactive order takers
- Lacking depth of knowledge in investments
- Suffering high staff turnover
- Pushing their own products only

When asked to rate their current perceptions of the bank as a source of investment advice, the majority were neutral to negative. But further probing showed clients intuitively **believe** banks have the investment knowledge and expertise available. They think that the bank **could** provide excellent financial advice.

¹ Sanford Weill, Chairman and Chief Executive of Citigroup quoted in "Citigroup to Expand in Europe." Financial Times. February 20, 2001.



What can banks do?

Clients want personal attention. IFAs and brokers seem able to provide service and operate profitably at relatively low asset levels. So what should banks do? Many organisations have launched initiatives, stopped and started again. Internet-based services in particular, have been toolled up and just as quickly shut down.

Courting the mass affluent requires a compelling value proposition not only to woo them but to counteract past experiences and beliefs. The challenge is to find a way to exceed client expectations for service and advice at the right price.



Strengthen key linkages

In rethinking strategy begin with an examination of three typically "weak links":

1. Organisation structure

Investable assets leave when it is not easy for staff or clients to access the right part of the organisation. Traditional "premier" banking services are targeted at the currently profitable, high value client, an approach that identifies too few mass affluents too late.

So current thinking is to combine profitability and potential analysis to identify the clients. Then factor in levels of advice desired and channel preferences to design support and delivery structures which capture and serve each sub-segment of the market. It sounds economic and efficient. But try managing it. Try accessing it. Keep it simple for both client and staff. Create a practical organisational structure rather than a "technically correct" structure.

2. Sales Processes

Most organisations rightly focus on attracting the mass affluent via direct mail and tele-marketing. The next step is to map the Financial Adviser's interview process and methods of capturing the assets. Then the sales process must be examined and managed end to end.

But where does the "end" begin? Once appointments are made, if the clients are to be seen in the branch, they must be quickly recognised and welcomed. The contrast between entering an indifferent, transaction oriented branch and the office of a professional is substantial. The drop out rate of potentially willing clients is high. The sales process needs mapping in detail *from the client point of view*. And the client experience managed by staff who know what to do, how to do it and are rewarded for doing it.

3. Use of Tools and Technology

Traditional financial planning tools are often inadequate - either too complex for this market segment or too simplistic to provide meaningful guidance. The most effective tools allow collection of both soft data (client objectives) and hard data (balances etc) through integration with back office systems and activities across distribution channels. Developed on an open platform to link with contact management systems, these tools can increase Financial Adviser productivity. Combining these elements permits an Adviser to efficiently provide one-to-one advice, keep up with client communications and personalise product offerings.

But the flip side of the technology is that clients can have access to the same information as the Adviser-on-line or through call centres. This may show up how little value the bank actually provides. It forces the Financial Adviser to become what they always said they were, advisers, not information gatherers.

Getting the Financial Adviser role definition and training just right are critical to achieving the bank's objectives.

There's no, one size fits all, best strategy. It depends on the starting point. That said some best practices appear to transcend how an organisation segments its clients or the structure they use to deliver sales and service:

- Client-centred approach
- Client segmentation first, then sales process, then structure
- Efficient filters, i.e. software and staff, to qualify, direct and pre sell
- Teams with a single management structure
- Financial planning (small "f", small "p") approach to sales

Industry and proprietary studies point to two reasons why banks lose out in this market segment:

- Customers don't perceive banks as a source of investment advice or well performing investment products.
- Banks don't do a good job of referring the customers that have investable assets to the appropriate distribution channel.

Successful courting is possible but good marriages still appear few and far between.

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