



401(k)



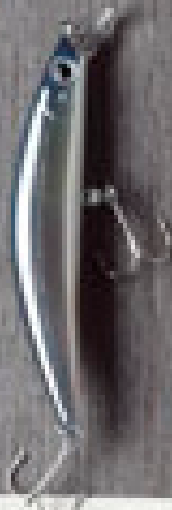
Financial Advisor



Home Equity



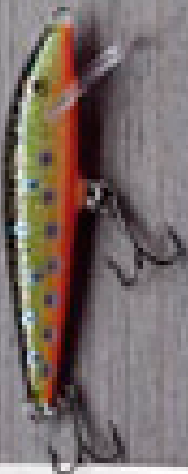
IRAs



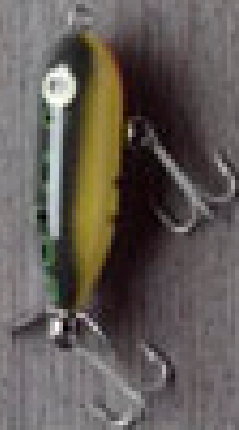
Money Market Account



Online Tools



Mutual Funds



Convenience



Reverse Mortgage



Trust

# Luring Money in Motion

## THE KEY FOR BANKS:

*Leveraging their Incumbency  
Relationship Advantage*

## HOW BANKS CAN ATTRACT RETIREMENT ASSETS

| SYNOPSIS | With the impending retirement of the baby boomer generation, banks face an unprecedented opportunity to capture retirement assets. Competing with non-bank investment firms, however, will require changes in strategy and tactics, as outlined in a recent study by BAI Research and Mercatus LLC based on a survey of mass affluent consumers. The authors recommend that banks focus on three opportunities: 401(k) rollovers, consolidating assets for income distribution and marketing their capabilities to the appropriate customer segment — those “less confident” mass affluent consumers who are looking for simplified retirement planning and investment advice.

Over the next decade, there will be no greater opportunity (and challenge) in retail financial services than retirement. The aging of America’s massive baby boomer generation, combined with the increased reliance on defined contribution plans and the decline of traditional pension plans



Annuities

HOWARD BJORNSON FOR BAI'S BANKING STRATEGIES

BY

PAUL McADAM, AJAY NAGARKATTE,  
ROBERT B. HEDGES JR. AND  
TERESA EPPERSON

*“Consumers are looking for dialogue, engagement  
and an offer to help reduce the sources of intimidation.*

*Banks can win their loyalty*

*by proactively engaging in that dialogue.”*

and social security, will firmly position retirement as the most pressing financial priority of mass affluent consumers.

But where does that leave America’s banks?

The largest banks certainly do not lack for retirement planning and investment expertise. For well over a decade, many have operated brokerage and mutual fund arms. But do banks have what it takes to compete with the non-bank investment firms to attract and keep the retirement assets that will be increasingly up for grabs in future years? Can they play this game well enough to at least capture the dominant share of retirement business from their own customer base?

To begin to answer these questions, BAI Research and Mercatus LLC completed a landmark research study to better understand the attitudes, behaviors and decision-making of mass affluent consumers in the U.S. around the topic of preparing for retirement (see “About the Survey,” page 23). “Mass affluent,” for the purposes of the survey, was defined as consumers between 35 and 70 years of age with investable assets of between \$50,000 and \$2 million.

While much has been written on U.S. consumers’ lack of preparedness for retirement, there has been little

focus on the actual decisions consumers are making — what consumers choose to do, or not do, why and with whom. By focusing on customer behaviors, as well as attitudes, and examining the characteristics of financial services providers that are demonstrating relevance in the retirement marketplace, we were able to identify practical strategies and tactics that retail banks can employ today to establish the required strategic footing.

It’s no secret that, on the retirement front, banks have underperformed over the past couple of decades as compared to brokerage firms, asset management firms, mutual fund complexes and independent financial advisors. Despite the success of premier investment firms, however, the marketplace for retirement financial services remains extremely fragmented, presenting an opportunity for banks to gain share by building off the strength of their existing customer relationships. Seizing that opportunity, our study found, requires that retail banks focus on three key opportunities:

- 1. CAPTURE 401(K) ROLLOVERS.** Retirement “money-in motion” is the frontline battle for retirement assets. Specifically, “orphaned” 401(k)s — those left within previous employer plans — represent a significant opportunity within a retail bank’s existing customer base. Developing online tools and staff expertise to capture rollovers is absolutely essential to generating retirement asset growth.
- 2. CAPITALIZE ON RETIREMENT ASSET CONSOLIDATION.** As retirement approaches, consumers’ priorities shift from asset accumulation to an emphasis on securing a steady stream of dependable income. Banks must leverage their core transaction and cash management



**BAI'S COMPETING IN THE RETIREMENT-DOMINATED FUTURE** research will be presented at BAI's Retail Delivery Conference & Expo, November 13-15 in Las Vegas.  
[www.bai.org/retaildelivery](http://www.bai.org/retaildelivery)



relationships, such as online billpay, to capture this income distribution business, otherwise core deposits are at risk.

### 3. ESTABLISH A RETIREMENT DIALOGUE WITH CUSTOMERS.

From corporate branding/messaging to everyday branch, phone and Web channel interactions, retail banks need to let their customers know that they are in the retirement business. In particular, this communication must be directed to customer segments that are receptive to learning more about their bank's financial advisory and investment services (see "Focusing Retirement Dialogue on the Right Customers," page 32). Establishing a retirement dialogue

with consumers requires both the prerequisite expertise and an all-important invitation.

Banks' responses to these three opportunities will require the alignment of human and capital resources across the organization — from branding and marketing to product and distribution capabilities. Perhaps most importantly, there is a critical need for banks to invest in marketing and communication programs that position them in consumers' minds as trusted providers of retirement solutions. Consumers are looking for dialogue, engagement and an offer to help reduce the sources of intimidation on this issue. Banks can win their loyalty by proactively engaging in that dialogue.

## About the Survey

**C**ompeting in the Retirement-Dominated Future, a research project conducted by BAI Research and Mercatus LLC, with sponsorship support from Deluxe Corporation, is based on a survey completed by 2,997 mass affluent U.S. consumers between April 17 and May 2, 2007. The survey was fielded to an online panel managed by Harris Interactive and was completed by consumers between 35 and 70 years of age with investable assets between \$50,000 and \$2 million. The sample was stratified by age, gender, region and race based on U.S. Census Bureau data to ensure national representation. The sampling error on the national sample was +/- 1.97% at a 95% confidence level.

The research was designed to understand the attitudes and financial behaviors of mass affluent consumers in order to

determine the drivers of decision-making in areas such as retirement investing and planning, asset rebalancing, 401(k) rollover and asset consolidation for income distribution. The analysis generated insights that will help banks deliver the expertise, competencies and products that will be required to position them as consumers' primary retirement services providers.

*Competing in the Retirement-Dominated Future* represents the first phase of multi-year initiatives by BAI Research and Mercatus LLC to identify strategies and tactics that banks can utilize to increase their relevance and credibility in retirement services.



**LEVERAGING THE RELATIONSHIP INCUMBENCY**

For large banks particularly, providing retirement solutions is a business they can't afford to ignore. According to the most recent reporting by the Washington D.C.-based Investment Company Institute, U.S. retirement assets totaled \$16.4 trillion in 2006 — nearly four times the size of the total consumer deposits held by banks! Moreover, a majority of mass affluent consumers (59%) cite saving for retirement as their top financial priority (see chart “Saving for Retirement is Top of Mind,” this page). In the coming years, trillions of dollars of investable assets that had been accumulating in 401(k)s, IRAs, government pensions and company benefit plans will come into play.

Banks once held a strong position in the retirement market. In 1990, for example, banks held 42% of all IRA assets, according to the Investment Company Institute. By 2006, this share had dropped to 7%. Across a range of retirement financial services, including advice and planning, establishing a savings program, 401(k) rollover and asset consolidation for income distribution, investment firms have succeeded in positioning themselves as the providers of choice for retirement solutions (see chart “Banks Behind in Race for Market Share,” page 26). Banks possess just an 18% share of mass affluent 401(k) rollovers, for

example, compared to 67% held by investment firms.

But despite the success of premier investment firms such as Fidelity Investments, Merrill Lynch, Ameriprise Financial Inc., Vanguard Group Inc. and Charles Schwab & Co., the market for consumer retirement assets remains highly fragmented. While Fidelity has the strongest market share, holding a 7% average wallet share as reported by mass affluent consumers, there are 16 financial institutions (five of them large banks) that possess wallet share between 4% and 1%, according to our research. Such a high degree of fragmentation suggests there is an opportunity for individual institutions to gain share before the largest players consolidate the market.

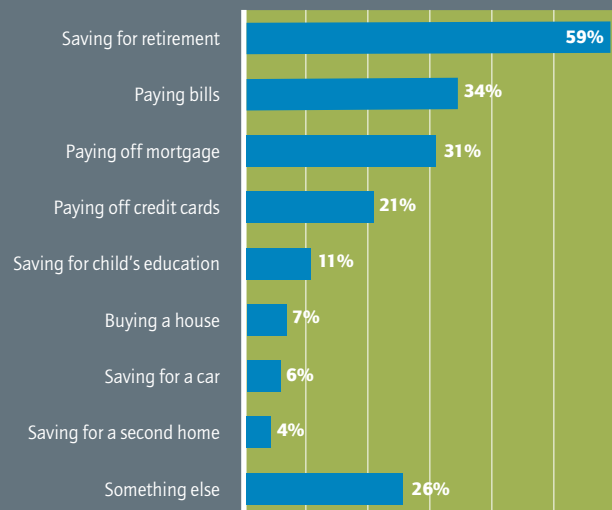
Customer relationships will be fundamental to banks' success. Banks have large installed customer bases, databases of customer information, established distribution channels and access to deposit and payments services. But the relationship incumbency that banks enjoy needs to be understood and leveraged.

Consider that banks have checking account or deposit relationships with almost every mass affluent household in the U.S. And about half of mass affluent consumers today already view banks as suitable providers of retirement services. When a brokerage capability is thrown into the mix, the percentage viewing banks as suitable jumps up to 62% — very much on par with the 64% suitability rating garnered by brokerage firms and the 63% rating captured by mutual fund complexes (see chart “Banks Plus Brokerage: Two is Better than One,” page 28). Furthermore, banks that can establish a retirement relationship with mass affluent customers end up capturing a 46% share of wallet, as reported in our study, versus only an 18% share of wallet for banks without the retirement relationship.

So the possibilities are exciting. But unfortunately, only 15% of mass affluent consumers in the BAI Research/Mercatus survey cited a bank as their primary provider of retirement solutions and savings, compared to 53% for investment firms. This raises a troubling question. Over the past few decades, thousands of banks, from community-based institutions all the way up to Citigroup, have

**SAVING FOR RETIREMENT IS TOP OF MIND**

When asked to rank their top financial priorities, mass affluent consumers identify saving for retirement as top concern.



Source: BAI Research, Chicago, and Mercatus LLC, Boston



*“Only 15% of mass affluent consumers in the BAI Research/ Mercatus survey cited a bank as their primary provider of retirement solutions and savings, compared to 53% for investment firms.”*

begun offering investment, asset management and insurance services. So why haven't banks been able to leverage their relationship incumbency advantage for retirement market share?

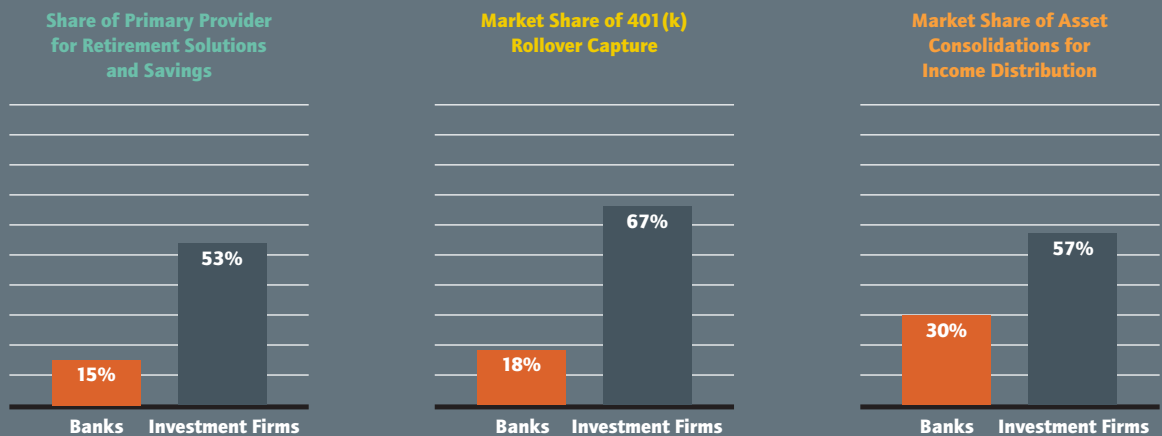
The reasons, of course, are numerous and complex. But the need for consumer awareness and engagement on retirement is clearly a central issue. For the most part, the marketing messages of investment firms such as Fidelity, Ameriprise and Vanguard emphasize one thing — retirement. Until recently, bank brands rarely associated themselves with retirement as a key marketing theme. The industry's recent focus on transactional fees probably doesn't help either. One can argue that the “free check-

ing” and non-sufficient funds (NSF) fee strategies of banks have undercut their efforts to build the “solution” platforms and relationships required to succeed in the retirement marketplace.

Even so, retail banks retain enough customer trust to leverage customer relationships in pursuit of the retirement opportunity. Forty-five percent of mass affluent consumers cite “existing relationship” as an extremely/very important reason for choosing their 401(k) rollover provider and 50% flag “existing relationship” as a key reason for choosing an asset consolidator for income distribution. Retail banks can compete for retirement assets should they choose to embrace the opportunities.

**BANKS BEHIND IN RACE FOR MARKET SHARE**

Banks lag behind investment firms in three key categories of market share of retirement assets.



Source: BAI Research, Chicago, and Mercatus LLC, Boston

*“Over a third of mass affluent households have at least one orphaned 401(k) account with an average balance of over \$100,000. These accounts are largely overlooked by retail banks, even though the total market in the U.S. for orphaned 401(k)s is well over \$1 trillion.”*



**CAPTURING 401(K) ROLLOVERS**

One of those prime opportunities is the 401(k) rollover. Forty-seven percent of mass affluent consumers’ retirement assets currently sit in employer-sponsored plans, with a significant portion of this money rolling into IRA accounts on an annual basis. Ninety-five percent of the \$1.1 trillion dollars that flowed into IRAs over the past five years came from 401(k) rollovers and other employer-sponsored plans while just 5% derived from direct IRA contributions, according to the Investment Company Institute. Clearly, developing and positioning the capabilities to capture 401(k) rollovers is absolutely essential to generating retirement asset growth.

Unfortunately, banking organizations have not fared well relative to investment firms in this realm. Today, banks capture only 18% of 401(k) rollovers from mass

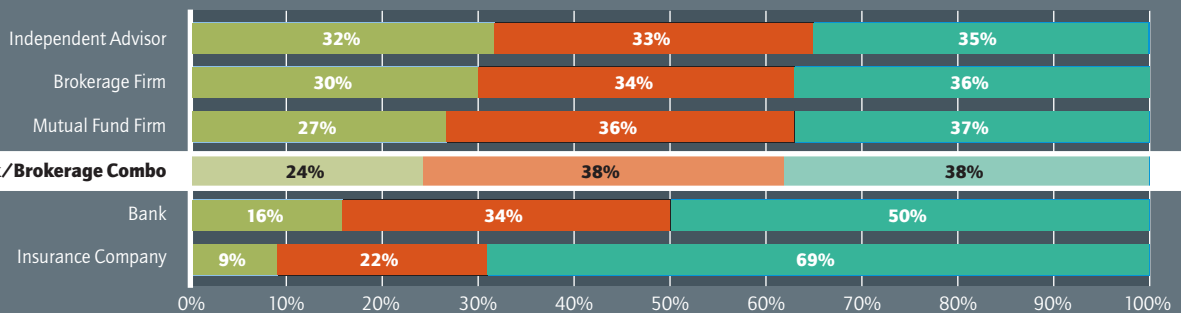
affluent consumers while investment firms capture 67%. Improving on banks’ share will be difficult as the competition will only intensify. But given the sheer volume of rollovers that will occur in the coming decade due to retiring baby boomers and the increasing prevalence of 401(k) participation among younger workers, a more proactive stance from banks could have a measurable impact.

Capturing 401(k) rollovers requires marketing, sales/service delivery and operational capabilities that are focused on the primary factors that stimulate rollovers. Financial institutions that administer 401(k) plans are naturally advantaged in cases that involve changes in employment status, but key capabilities can enhance a bank’s rollover capture rate, such as online retirement information and tools and access to dedicated retirement specialists.

Less than half (45%) of 401(k) rollovers are stimulated

**BANKS PLUS BROKERAGE: TWO IS BETTER THAN ONE**

When asked to assess financial services institutions for suitability for providing retirement services, mass affluent consumers give banks higher marks when they have a brokerage capability.



Source: BAI Research, Chicago, and Mercatus LLC, Boston

■ EXTREMELY/VERY SUITABLE ■ SUITABLE ■ SOMEWHAT/NOT AT ALL SUITABLE

by a change in employment status, such as starting retirement or changing employer (see chart “The 401(k) Rollover Opportunity,” this page). Forty-eight percent of this change, however, occurs in response to a stimulus directly initiated by a financial institution. Receiving a recommendation from a financial provider or completing a portfolio review or year-end tax review can motivate consumers to roll their assets.

More specifically, there is a tremendous opportunity for banks to capture rollovers of orphaned 401(k) accounts, those still held in plans of previous employers. More than a third of mass affluent households have at least one orphaned 401(k) account with an average balance of over \$100,000. These accounts are largely overlooked by retail banks, even though the total market in the U.S. for orphaned 401(k)s is well over \$1 trillion.

Simple inertia is the main reason why the majority of consumers (56%) have left these accounts in orphaned status. About a third of respondents (35%) did so because they were satisfied with the plan’s investment options, which reflects a shortcoming on the part of competing financial services providers’ to communicate the benefits of rolling the funds into an IRA. Banks need to develop a consumer-oriented message that outlines these benefits, such as



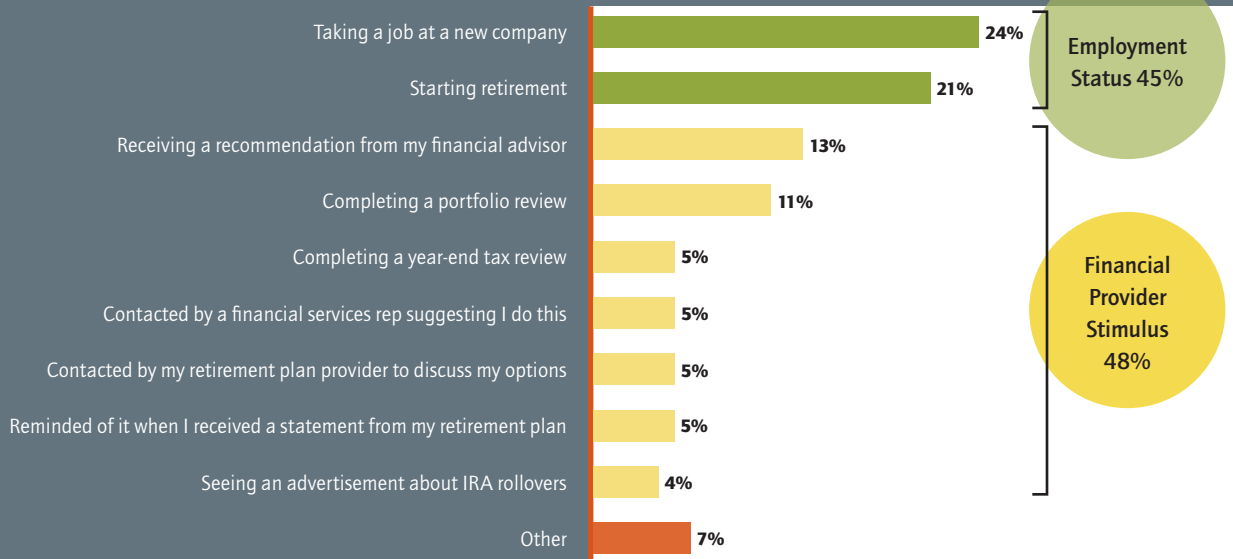
achieving more control over your money, ease of management, more investment options and cutting ties to the former employer.

**CAPITALIZING ON ASSET CONSOLIDATION**

Helping consumers address their retirement income distribution needs represents a second significant opportunity for banks. At the point of retirement, the priorities of mass affluent consumers shift from asset accumulation to secur-

**THE 401(k) ROLLOVER OPPORTUNITY**

Events linked to employment status — starting a job at a new company and retirement — prompt nearly half of 401(k) rollovers, leaving financial providers room to provide their own stimulus to change.



Source: BAI Research, Chicago, and Mercatus LLC, Boston



*“Mass affluent consumers now identify Fidelity Investments among the top five providers of traditional banking services.”*

ing a steady stream of dependable income. Consolidation of retirement assets for income distribution enables greater efficiency in working with advisors, managing investment assets and in handling day-to-day cash and payments.

A pre-existing relationship, whether reflecting loyalty or inertia, is a strong driver of consolidation for income distribution for mass affluent consumers, which improves the competitiveness of banks. They capture 30% of mass affluent consolidators in this market compared to 57% for investment firms. But this promising potential for banks is under attack as investment firms are building strong bank-

ing capabilities. In recent months, Fidelity and Schwab have launched high-profile initiatives to offer high-yield checking accounts with a full range of ATM and online bill payment capabilities (see chart “Looking More Like A Bank,” this page).

Firms such as Merrill Lynch, Ameriprise, Edward Jones and E\*Trade Financial provide similar services. In time, we can anticipate that almost every major brokerage and mutual fund provider will introduce a full suite of transaction and consumer cash management services. These firms are no longer content with simply managing

**LOOKING MORE LIKE A BANK**

New cash management accounts from Fidelity Investments and Charles Schwab are increasingly bank-like and competitive for core deposits.

	FIDELITY INVESTMENTS mySmart Cash Account <sup>SM</sup>	CHARLES SCHWAB & CO Schwab Bank High Yield Investor Checking <sup>TM</sup>
<b>INTRODUCED</b>	August 2007	April 2007
<b>RATE &amp; MINIMUM BALANCE</b>	<ul style="list-style-type: none"> <li>• 3.50% APY with no minimum balance requirements and no monthly fees</li> </ul>	<ul style="list-style-type: none"> <li>• 4.25% APY with no minimum balance requirements and no monthly fees</li> </ul>
<b>ATM CARD &amp; FEES</b>	<ul style="list-style-type: none"> <li>• No ATM fees</li> <li>• Automatic rebate of any ATM fee charged by any bank</li> </ul>	<ul style="list-style-type: none"> <li>• No ATM fees</li> <li>• Automatic rebate of any ATM fee charged by any bank</li> </ul>
<b>ONLINE BILL PAYMENT</b>	Free	Free
<b>ACCOUNT TRANSFERS</b>	Free	Free
<b>OVERDRAFT PROTECTION</b>	Yes, with linked brokerage account	Yes, with linked brokerage account
<b>CHECKBOOK</b>	Free	Free
<b>FDIC INSURED</b>	Yes	Yes

Source: Web site of Fidelity Investments, Boston, and Charles Schwab & Co., San Francisco



## Focusing Retirement Dialogue on the Right Customers

In order to gain greater market share in 401(k) rollover capture and retirement asset consolidation, banks must elevate retirement as a central dialogue and means of engagement with consumers. The first step is to let consumers know that banks are in the retirement business.

But great care must be taken to ensure that these messages are directed toward receptive consumer segments. A recent study by BAI Research and Mercatus suggests banks have a lot to learn about connecting with the retirement marketplace. When it comes to achieving greater relevance and credibility in retirement, banks have struggled because they have not focused on the right consumers. This is the central dilemma that banks must address to make any headway in a financial services industry that will be increasingly dominated by retirement-oriented issues.

Similar to their full-service brokerage competitors, banks have historically focused their mass affluent consumer strategies on advice-seeking customers who have higher incomes and the greatest investable assets. These mass affluent customers are confident and knowledgeable about investing for retirement and appreciate having a relationship with a financial professional. They know they will retire comfortably — the only question is just how comfortably. These are attractive customers indeed. Unfortunately, for some deep-seated attitudinal reasons, they are not receptive to receiving investment and retirement services from banks.

Banks are better positioned to compete for a different segment of mass affluent consumers. These people are generally less confident about retirement and are worried that they lack sufficient assets to retire. They are less knowledgeable about investing and don't spend much time at it. Banks' retirement marketing efforts should be designed to raise awareness within these less-confident consumer segments and emphasize retirement services that are easy to understand — and realistic given these consumers' financial situations. Bank messaging should emphasize approachability, simplicity and providing appropriate answers.

Despite their worries about retirement assets, these consumers have the potential to be very profitable customers to banking organizations. For one thing, they are quite numerous, representing 40% of the mass affluent population. In addition, their annual household incomes exceed \$95,000 and they reported average investable assets exceeding \$380,000. Banks can attract the assets of these consumers by engaging them in a retirement conversation and offering them simple methods of

receiving education, advice and guidance that address the emotional nature of the retirement topic.

From a marketing perspective, the attitudinal distinctions between the confident and less-confident mass affluent consumer segments pose a problem for banks as traditional age, income and asset level-based segmentation techniques are insufficient to distinguish between the segments. If a bank positions itself to mass affluent consumers in a uniform fashion, there is a good chance that its communication, and efforts to establish engagement, may not appeal to either group.

Fortunately, our research revealed three primary attitudes that distinguish the confident from the less-confident consumers. These attitudes include: (1) their level of optimism about retirement, (2) their confidence in managing retirement assets and (3) their general level of engagement in retirement planning and decision-making. Banks can increase their relevance and credibility with these less-confident consumers by creating marketing communications that are directed toward these three attitudes while positioning the bank as a source of retirement expertise.

Furthermore, banks can ascertain where customers are positioned vis-à-vis these attitudes by engaging them in a conversation or survey that includes the following questions:

- How confident are you in managing investments?
- How concerned are you that you will have sufficient assets in retirement?
- How involved are you in making retirement financial decisions?

If customers provide negative or uncertain responses to two or three of these questions, there is a very high likelihood that they fall into the "less-confident" category. These insights can then be leveraged to initiate dialogue focused on retirement assets, in a manner to which these consumers will respond.

So while it may be more complicated to target and direct-market to this segment, we recommend that banks consider shifting their retirement advertising messaging toward attitudinal themes of empathy, concern and engagement in order to raise awareness, relevance and credibility with consumers that are receptive to banks. Moreover, with increasing customer relationship management and database marketing capabilities, and given the basic regulatory requirements to speak to consumers' investment objectives and needs when selling investment products, we believe such attitudinal segmentation schemes can be implemented effectively. | PAUL MCADAM, AJAY NAGAR-KATTE, ROBERT B. HEDGES JR. AND TERESA EPPERSON



*“Online banking and bill payment services are viewed very favorably by consumers seeking to consolidate retirement assets for income distribution.”*

their clients’ investment assets. Increasingly, they are targeting the core deposit and lending services traditionally offered by banks with the ultimate goal of establishing themselves as primary financial services providers. In fact, brokerage firms have become so focused and effective in their promotion and execution of core banking services that mass affluent consumers now identify Fidelity among the top five providers of traditional banking services.

Banks must respond to this threat. The vast majority of consumers who consolidate retirement assets for the purpose of income distribution are fifty years of age or older. Banks have pre-existing checking and deposit relationships with the majority of these consumers and should respond with product and delivery innovations to address retirement needs. Such innovations should center on education, product bundling, simplification of cash management and payments and retirement income goal-based products.

In particular, banks should seek to leverage online banking and bill payment services as these capabilities are viewed very favorably by consumers seeking to consolidate retirement assets for income distribution. Banks that fail to respond to the strategic challenge now coming from investment and brokerage firms risk fumbling away the retirement asset consolidation opportunity and may put their core deposit franchises at risk.

#### ESTABLISHING A RETIREMENT DIALOGUE

The issue of retirement is complex, emotional and a source of anxiety for consumers. Many of them desire a simple means of receiving education, monitoring support, regular reviews, advice and guidance. For banks, these needs suggest the opportunity for engagement and an offer to help

reduce the sources of intimidation around the retirement topic. The implication for banks is the critical need to establish trust and offer simplicity rather than focus solely on products and transactions. Products, after all, are merely commodities while the generation of customer relationships based on trust can be leveraged to gain greater retirement asset wallet share.

Dialogue requires reaching out, establishing empathy, and demonstrating basic retirement competencies. Our research indicated a clear pattern of mass affluent consumers responding positively when asked for their retirement business in this manner.

#### THE RETIREMENT IMPERATIVE

Opportunities abound, but given the magnitude of the retirement marketplace, establishing a strong competence in some aspect of retirement is critical. Some banks may choose to carve out a position in the investment advisory space, for example, while others focus on innovations that free up cash flow for retirees or help families manage health care risk. But regardless of focus areas, this is a time-sensitive issue and banks must act quickly.

To win in retirement, banks must be willing to abandon some of their traditional marketing and sales approaches and establish a retirement dialogue that focuses on the consumer attitudes and behaviors that drive decision-making. ⊕

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