

Strategies for Success in the Retirement Market

Market turmoil and a flight to safety give banks the opening to build retirement market share. by GINA PAGLUCIA MORRISON, TERESA EPPERSON, AJAY

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Despite the volatile and uncertain marketplace facing financial services providers today, there remain clear avenues for growth and share gains. One such avenue is delivering against consumers' retirement needs.

The retirement marketplace represents an extraordinary opportunity for leading banks to build relationships, gather assets and regain trust among consumers. With U.S. retirement assets approaching \$16 trillion, the size of the market is staggering. Even with the recent stock market declines, which have left shell-shocked investors in even more need for retirement planning advice, the opportunity for strong competitors to gain market share in this arena has never been greater.

We have already seen early signs of the opportunity that awaits banks in the fact that their share of retirement assets increased slightly last year – at the expense of the traditional retirement solutions providers.

So what are the success factors driving those firms that gained share? How should banks overall focus their short and long-term retirement strategies? To answer these questions, [BAI Research](#) and [Mercatus LLC](#) undertook the 2008 Retirement Preparedness Survey, the second survey in our annual retirement benchmarking program. As in the [2007 edition](#) of this study, BAI/Mercatus conducted an online survey of mass affluent consumers between the ages of 35 and 70 with investable assets of between \$50,000 and \$2 million, not including real-estate or 401(k) plan assets.

The 2008 survey results revealed three key findings: (1) Focusing on retirement and building the retirement relationship helps banks strengthen and expand existing customer relationships; (2) To be successful in the retirement marketplace five distinct competitive capabilities are required -- online capabilities, retirement knowledge and expertise, problem-solving skills, quality branch services and low cost; (3) Banks achieved market share gains in 2008 in core retirement metrics at the expense of investment firms due to their increasing strength in these key areas.

Relationship Building

Banks win when they build the retirement dialogue into their conversations with customers. During the past two years, several leading banks dialed up their focus on retirement with extensive advertising campaigns and made it a key part of their conversation with customers. These leading banks offered answers and solutions around retirement, and consumers responded. The banks made gains in both overall share of assets and in account holdings.

The 2007 BAI/Mercatus study revealed the impact of the retirement relationship on share-of-wallet (percent of total investable assets held with a particular firm) for banks and investment firms. Those consumers who rated their primary bank or primary investment firm as their retirement services provider (RSP) held more assets with them. This finding became even more pronounced in 2008, as the retirement relationship increased share of wallet for banks to 62%, up from 18% without the retirement relationship. For investment firms, the increase was from 38% to 68%. Delivering against consumers' retirement needs is decisively the best approach to making share-of-wallet gains.

Survey findings also revealed, when looking at the wallet composition of those consumers who named their primary bank as their RSP, a much higher incidence of Individual Retirement Accounts (IRAs) as compared to those consumers whose primary bank was not their RSP. In addition, average balances on a product/account basis increased with the

retirement relationship. For example, average balances held in a money market account when a bank is named as RSP were nearly 50% higher. The average value of the IRA increased 35%.

The centrality of the IRA creates an imperative for banks to rethink their traditional strategies. It is important to take a broader view that considers the halo effect from having the IRA account, in addition to the profitability. To gain share, banks must offer an effective IRA product that can meet the needs of their target customers as well as compete with those offered by investment firms. More importantly, winning the retirement relationship will require incorporating “Retirement” into the standard dialogue of the bank, as well as proactively demonstrating retirement expertise.

Five for Success

To better understand shifts in market share among providers in 2008, BAI Research and Mercatus analyzed the change in performance ratings across a battery of key attributes. Our analysis of year-over-year change in attribute ratings and retirement performance revealed which attributes were most important and could therefore best explain the change in share performance.

The findings revealed a consistent pattern of performance improvement among five core performance attributes, which proved to be key indicators of share gains across most retirement metrics (see chart, [“Five Retirement Metrics that Matter”](#)):

Online Capabilities. Online information and tools were identified in our 2007 survey as a key characteristic of those firms that successfully captured rollovers. In 2008, we found that this attribute explained performance gains not only across rollover, but also across asset share and consolidation share. Based on consumers’ 401(k) relationship, which has become primarily an online experience, mass affluent consumers are increasingly becoming

introduced to retirement and investing through the online capabilities of their 401(k) plan provider. Working with online tools and actively researching retirement-related topics online have become standard practice. Mass affluent consumers are looking to educate themselves about retirement and will give higher ratings to those firms with effective online tools and information.

Among those online retirement tools that were most used by the mass affluent were the Retirement Planning Calculator and the Retirement Income Tool. Those online tools that ranked highest included the 401(k) Rollover Calculator and the Retirement Savings Distribution Calculator.

For banks to be successful, their online capabilities must, at a minimum, deliver an experience close to that of the 401(k) provider. Consumers will increasingly research their options online. Having a Web site that demonstrates retirement capabilities will be critical to gaining access to these consumers as they make retirement-related decisions.

Retirement Knowledge and Expertise. Demonstrating knowledge and expertise in retirement is a critical attribute for the mass affluent. Retirement expertise is not sufficient, however, if customers do not experience it in the context of their relationship with the bank. A troublesome finding in the survey was that 68% of mass affluent were aware that their primary banks offered retirement solutions and savings, but only 35% would consider going to them.

Demonstration of knowledge and expertise can be showcased at key customer touch points by having representatives and front-line employees that are well trained around key retirement issues. In addition, an effective referral process to direct consumers to Retirement specialists can help address customers' more complex retirement-related needs.

Finally, for banks, gaining credibility is essential. The data from the survey revealed that

many mass affluent customers do not perceive their bank as suitable to be their provider of retirement services – only 24% in 2008 and 25% in 2007 said their primary bank was extremely or very suitable. Banks can begin to address this hurdle by making consumers aware of their retirement capabilities and bringing retirement into the standard dialogue with customers (see chart, [“A Ways to Go”](#)).

Problem Solving. As the financial crisis has erased more than one trillion dollars of retirement assets, addressing customers’ retirement concerns and questions is critical. Validating customers’ concerns about the diversification of their investments or their ability to retire as planned, for example, is a first step toward helping providers’ improve their positioning as a customer champion. However, to be truly effective, providers must offer customers specific retirement solutions that are targeted to their needs. Customers are looking for very specific answers to put them back on track, increase their confidence and make them feel as though they are doing the right thing. At a minimum, this will require banks to understand their customers’ level of sophistication and engagement around investing and retirement and how they prefer to interact with a professional. Problem-solving for some customers might mean giving them the necessary tools to make their own final decisions, while for other customers it means making the decisions for them. These decisions may involve how to handle their orphan 401(k) or how to develop a retirement income strategy that manages risks and provides for their day-to-day cash management needs.

Demonstrating problem-solving capabilities occurs across all channels – the branch, the phone and the Web site. And, it is important that these capabilities are demonstrated in the messaging that is delivered to customers in broad marketing campaigns. Customers look to their RSP to answer questions, provide solutions and, ultimately, look out for their best interests.

Quality Branch Services. Delivering an effective branch experience around retirement is




critical for banks, particularly as many mass affluent prefer an in-person experience for receiving advice on investments and retirement planning. The branch channel is an essential component of demonstrating knowledge and expertise and is a complement to the online research and decision-making process. While a large portion of the mass affluent may do their research on providers online, they will also seek a branch-based experience to finalize the decision and open the account (s). The multi-channel research and opening behavior of mass affluent consumers translates into branches being critical in the retirement product sales process. Metrics and strategies should be in place to measure ongoing effectiveness and ensure the branch customer experience delivers on the bank's intended value proposition

Low Costs and Fees. In the broad marketplace, customers are increasingly looking to their financial services providers for transparency around pricing and fees. This concern is particularly prevalent among consumers facing retirement decisions. Those firms that provided competitive and transparent pricing and clearly delivered that to customers received higher performance ratings within the survey. Transparency supports the consumer decision-making process and sends a powerful message regarding which providers are looking out for consumers' best interests. In the current environment, where consumers are questioning which providers can be trusted to do the right thing and be financially solvent, the issue of competitive and transparent pricing looms large.

Banks Have Momentum

While it is true that investment firms continue to lead the retirement marketplace, banks as a group made share gains across four key retirement metrics in 2008 versus 2007 (see chart, "[Banks Gain Ground](#)"). For example, banks' share of average assets held grew from 23% to 26%. When they serve as RSPs, banks' share grew from 22% to 27%. In IRA rollover capture, banks' share grew from 18% to 23%. For the first time, banks were represented among the top ten competitors in IRA rollover capture (see sidebar, "[401\(k\) Platform Capabilities Needed for Long-Term](#)").

In contrast, investment firms showed significant share losses in each of these metrics and more banks were represented among the top ten competitors than in 2007. Going forward, banks can extend the momentum and share gains won in 2008 by building the retirement dialogue into their core customer relationships and focusing on the five competitive capabilities identified for success.

Related Sidebars	Related Charts
401(k) Platform Capabilities Needed for Long-Term	 Banks Gain Ground  Five Retirement Metrics that Matter  A Ways to Go

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