

IS CROSS-SELL "STICKINESS" JUST WISHFUL THINKING?

Do multiple products breed loyalty? Or only the right combinations?

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UNconventional Wisdom is a periodic guest blog, where authors hold up the so-called common wisdom to a fresh perspective. To propose a guest blog, email Steve Cocheo, executive editor & digital content manager.

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Conventional wisdom suggests that the more bank products people buy, the less likely they will switch banks. However, a new research study throws very cold water on that belief.

The Value of an Investment and Insurance Customer to a Bank finds no meaningful increase in loyalty among customers with multiple bank products. However, those who buy an investment or insurance product are 34% more likely to stick with their primary bank. And these buyers have 84% greater financial assets and double the bank balances of the average bank customer, making them highly attractive in today's fee-constrained environment.

Co-sponsored by Prudential Annuities, the study changes the cross-selling game and highlights a strategy for achieving greater customer value. If you want to increase the loyalty of your most desired customers--those with large balances and high affluence--then you should view investment and insurance sales not as a customer accommodation, but as a business imperative. (The study is based on an analysis of the MacroMonitor Study, conducted every other year by Consumer Financial Decisions Group of Strategic Insights (2010/2011).

Roots of the argument

Let's review the supporting data.

The research, conducted on a national sample of 4,374 households, found that:

• Customers who purchase investments and insurance have total household investable assets of \$348,000, 84% more than the financial assets of regular bank customers.

• The typical bank brokerage account is worth between \$45,000 and \$55,000, and average bank balances are half that amount.

• Bank brokerage customers have 16% higher checking account balances across all of the financial institutions with whom they do business.

• Similarly, those customers on average have 85% higher savings account balances than do non-brokerage customers.

• Investment/insurance customers have twice as many credit products and 11% more remote banking products than do non-buyers.

The above data suggest that a bank's brokerage clients are heavy users of its more profitable and strategic banking products. But the gap between their investable assets and the size of their brokerage accounts is noteworthy. Clearly, these customers are potentially a great source of additional deposit and investment sales—and should be considered high-value prospects.

Which comes first, loyalty or purchase?

Now, you may be asking: "Do they buy investments or insurance because they're already loyal to the bank? Or does the act of buying these products create the loyalty?"

Here's what the data show. Bank and credit union customers overall are quite loyal to their primary financial institution: 33% said they would not switch to another banking institution, and 41% doubted they would, although they'd listen to competing offers. What happens when they buy an investment product or insurance policy? 42% now say they wouldn't switch, compared with 32% of customers who never bought an investment/insurance product.

But look what happens when we compare the impact of existing banking relationships on customer loyalty? As you can see in the chart below, the total number of banking products, remote banking products, or credit products essentially has no impact on customer loyalty. What does have an impact is whether the customer bought an investment or insurance product. Customers who say they wouldn't switch banks on average have 50% more brokerage products than do buyers who say they'd consider switching.

Click on image to enlarge

Not only does having an investment/insurance relationship have a larger effect on loyalty than does having

bank products, there was no additional impact when customers bought more bank products, as you can see in the chart below. Conversely, when people bought just one investment/insurance product, the number who say they wouldn't switch increased by eight percentage points, a 24% increase compared with non-brokerage customers.

Click on image to enlarge

When our researchers asked loyal investment/insurance buyers about their assets, they found that 39% had assets between \$100,000 and \$1 million. Again, these mass affluent customers were happy with their bank and not inclined to switch to a competitor. This is an opportunity to cross-sell more investments or insurance to this group.

Unfortunately, the study reveals that banks are largely missing out on this opportunity. For example:

- Only 12% of consumers who consider a bank to be their primary financial institution have bought an investment or insurance product from that institution.

- Although investment/insurance penetration increases with income, only 23% of mass-affluent consumers who consider a bank their primary financial provider have purchased investments or insurance from their bank.

- About 53% of households have the majority of their savings and investments at a bank. Yet only 15% have also purchased an investment or insurance product there.

- And 36% trust banks a great deal. Yet banks have sold investments and insurance to only 15% of the customers who trust them the most.

These results are remarkable. In an attempt to increase the loyalty of their most desired customers, banks are selling more core products to them--with limited results. But research suggests that selling them just one investment or insurance product generates 34% greater loyalty, leading to potentially higher long-term customer value. Is this an opportunity worth exploring?

Cross-sell within a cross sell

The investment/insurance loyalty effect creates a perfect cross-selling opportunity. Selling an annuity or term life product helps you engage customers in conversations about their large pools of assets and significant financial needs, including their . . .

- High-balance 401(k) accounts, which are typically second in size only to their homes.

- Cash-value life insurance policies, which consumers have established to create permanent family legacies.

- College-savings accounts, which people hope will fulfill their dreams of providing their children with an education.

When you have such conversations and respond with suitable products, you will likely enhance the quality, depth, and "stickiness" of the bank/customer relationship. The #1 way to create meaningful relationships with your mass-affluent customers is to offer them more opportunities to buy investments or insurance from your bank.

How to turn things around at your bank

Here are four actions you may wish to consider:

1. Change your cross-selling paradigm. Don't view cross selling of investments and insurance as an accommodation. View it as a strategic necessity.

2. Apply your existing cross-selling insights to the sale of investments and insurance. You already have best practices in house; you just need to apply them in a different context.

3. Evaluate your human resource allocations. The key here is to scale up the number of licensed insurance or investment representatives to effectively probe customer needs, while fulfilling a bank's desire for results.

4. Leverage your existing investment and insurance partners. These companies have experience working with banks. They can help you assess the investment/insurance opportunities in your customer base and right-size an effective cross-selling effort. They know how to train bank employees to recognize referral opportunities and make a skillful hand-off. And they've got the marketing tools you need to communicate with customers and the training programs you can leverage to create a referral-friendly banking environment.

You and your partners will benefit from dedicating bank resources to successful cross selling. If you embrace investments and insurance sales as a core part of your business operations and culture, cross selling will become a brand-new game.