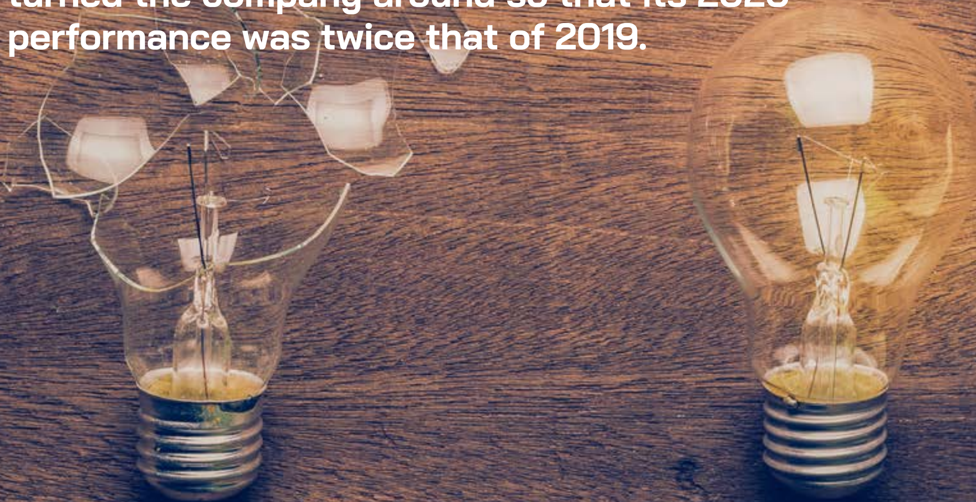
Link to Article on website

Client Loyalty: Are You Getting it Wrong?

Recently, we had an interesting conversation with a client, a high net worth individual (HNWI) and a client of several private banks. He recently sold his company to another financial services business. He is still the CEO. In mid-2020, after COVID caused a total collapse of revenue, he turned the company around so that its 2020 performance was twice that of 2019.



GET IN TOUCH

View Rowan Jackson's LinkedIn Profile

Find out more about Promising Outcomes

BY:
ROWAN JACKSON, MVO,
Chairman, Promising Outcomes

He's hiring people and, due to the nature of their work, his employees are in the office with him – unusual during this pandemic. He provides them with meals and ensures their motivation and morale is as high as possible. They are COVID-tested thrice weekly. Due to their youth and their home circumstances, many of them prefer to be in the office, blending their work and social lives, rather than working from home. He has created a dynamic, high-energy culture that appeals to these young people.

His loyal staff spread positive messages to the employment market about his company. Hiring new people is easy. By retaining them he grows his relationships with clients; the business is expanding rapidly as a result.

Our client is a successful technologically savvy Fin-Tech entrepreneur.

Unfortunately, our friend cannot say the same about his relationships with his three private banks. Prior to COVID, his banks' approach was based on promoting strong personal connections with his relationship managers, who'd offer him interesting face-to-face sessions – usually during the evening, with wine.

COVID stopped his cosy relationship with the private banks. If a private banker calls for a meeting, it's merely, in our friend's words, "a set of pleasantries"; the emotional ties between him and his relationship managers have loosened dramatically. He has less reason to take a call from a relationship manager. They offer little value from his perspective.

Consequently, this HNWI feels that it is harder for the banks to justify their fees. He asks himself why he needs private banks at all when an investment advisor or two could do the same or even better job for him at a substantially lower cost.

His RMs do not seem to know his expectations, do little to find out what has changed in his world, have little data on him and – worse still – fail to make every call valuable to him. The value he is getting from them is not commensurate with the fees he is paying. He commented: "I could just as well have an IFA and a separate credit card."

ROWAN JACKSON
Promising Outcomes

He is not alone. PWC[1] summarise the situation for HWNIs starkly:

- HNWIs enthusiastically adopt technology.
- 69% of HNWIs use online/mobile banking, but only 25% of wealth managers offer digital channels beyond email.
- Wealth management is one of the least tech-literate sectors in financial services.
- CEOs of WM companies recognise the need to adopt digital but meet resistance from relationship managers.
- Weak affiliation to traditional wealth managers is creating a sector vulnerable to FinTech incomers.
- Ignoring this state of affairs is not an option.

We had a conversation recently with a potential private bank that stopped sharply when they said they did not provide digital access to Xero for SMEs. In the current environment, SME leaders expect that their wealth managers will be able to connect to software like Xero. Such a feature is essential to do business. This attitude typifies the issues facing the sector.

All the private banks that supply our friend are keen to improve their client retention and increase the total

[1] https://www.pwc.com/sg/en/publications/assets/wealth-20-sink-or-swim-gx.pdf

assets they hold for him. This is in their "assets under management" (AUM) target that all WM firms have. Based on what they know about him, his needs relate to the performance of his investments; of course they do. So, what must they do to improve retention?

- You might say, "Of course meeting his needs would be a basic step for all WM businesses. Doing this would naturally lead to higher client loyalty." **Wrong!**
- Perhaps, you might think, if they conduct satisfaction surveys of all their clients, they could make improvements to the way they meet client needs, and that would in turn increase loyalty. **Wrong!**
- Maybe if they use the Net Promoter Score (NPS) to compare their services to those of other private banks, they could find ways to improve, and that would improve loyalty. **Wrong!**

Let's look at these three ideas in turn. Why are they so wrong?

Meeting client needs

This is what marketing people say: meet the clients' needs. The pandemic has produced a problem with this approach, because needs haven't changed much, and therefore potential improvements via needs are limited.

"Unless our friend's banks know, with precision, exactly what their clients' new expectations are now – not what they were in 2019 – they will not be able to adjust their services. Meeting expectations is now dramatically more important than meeting needs."

What do we mean by saying "needs haven't changed much" during this time of radical transformation?

Despite all the changes in the world, the underlying needs of most people – and organisations – have not changed. People still need to buy food, the same as before COVID. But we all now *expect* quick, frictionless online shopping and delivery experiences, even from independent local shops. Needs haven't changed; expectations have changed drastically.

The vital focus area for banks, then, is not just needs but *expectations* because, post-COVID, consumer expectations of what is ideal have changed seismically. If you cannot meet your clients' needs, you are in real trouble, but that's always been the case. The game-changer now is that our expectation of *how* we do things – whether it's buying food or accessing financial services – has undergone a massive transformation. Our needs have not.

So, unless our friend's banks know, *with precision*, exactly what their clients' *new* expectations are now – not what they were in 2019 – they will not be able to adjust their services. Meeting expectations is now dramatically more important than meeting needs.

Satisfaction surveys

Since 1995, we have known that measuring satisfaction is not a reliable predictor of loyalty or customer behaviour. Recent comments show why here.

Despite this, many organisations use it to try to measure how they can improve client retention and are dismayed when in many cases it doesn't. What should they do? Measure performance against expectations because this *will* accurately predict loyalty.

Net Promoter Score

Many organisations use NPS, but as its creator, Fred Reichheld, has said, NPS is not diagnostic. It can tell you that something is wrong and needs to be improved, but it doesn't tell you what or how to improve it. A CEO of an £800 million business said to us this year: "I have just spent a lot of money surveying my multi-national customers and employees using NPS. I gained no insight or anything I can action." Here is more on NPS.

What should be WM businesses be doing to retain their HNWI clients?

Step 1:

Understand exactly what their clients' expectations of an ideal experience are. This is not as simple as it sounds as Bill Fonvielle explains in this article.

Step 2:

Use these expectations to measure performance. Again, there is a way to do this. Insights provide exceptionally high value and tangible direction.

If these two stages are followed, the banks will get:

- A prioritised, client-driven list of areas for improvement (AFI).

- Performance data that can provide extra insight and drive further performance improvements over time.
- Compelling insights to get ahead of the competition.
- Compelling data on their competition.
- Compelling data for improving skills and processes.

Implement the list of areas for improvement from client research and there is a chance that AUM will go up, and so will the company's results.

PWCs findings indicate that much can be done through investing in better technology.

Until now, wealth management's personalised response has relied on human effort. But digital and algorithmic innovation is creating the possibility of more and more of the wealth manager's role being delegated to technology. This, in turn, is potentially opening up the sector to new FinTech players with very different ways of doing things.

Wealth management firms cannot assume that their years of experience, brand prestige or even the quality of their client relationships will insulate them from this possibility. Current levels of satisfaction and advocacy among WM clients are modest at best. Added to this, a younger cohort of NHWIs is emerging, whether through their own enterprise or wealth transfer. As millennials grow in economic power, firms will be courting a tech-immersed generation that has grown up in a world of economic instability and who are, as a result, highly adaptable, restless and fickle in their choice of brands and service providers.

Wealth management is one of the sectors most vulnerable to disruption, with more 20% of such businesses believed to be at risk. To survive in a digital world that's evolving at breakneck speed, wealth management firms urgently need to take action to demonstrate their value to existing and future clients – and to keep pace with the new waves of digital opportunity that are emerging. ■

Like to know more? Contact Rowan Jackson on rowan@promisingoutcomes.com

PROMISING OUTCOMES