OLIVER WYMAN

Financial Services

HIGHLIGHTS FROM THE 2013 OLIVER WYMAN MYSTERY SHOPPER

CUSTOMER DISCOVERY AND RELATIONSHIP SELLING

OVERPROMISING AND UNDER-DELIVERING

MARSH & McLENNAN COMPANIES

SUMMARY

Almost all large banks have publicly stated their intent to deepen customer relationships, i.e. get them to use more products from the bank. However, few of these large banks have instituted sales practices that translate intent into effective action. This is the key finding of an Oliver Wyman mystery shop of 13 large banks. We set out to understand cross-selling practices associated with opening checking accounts in a branch and applying for a mortgage. In both areas, there are missed deepening opportunities:

- Checking accounts – While almost all the banks tried to cross-sell savings accounts and credit cards during checking account origination, few tried to understand other financial needs, particularly investments and retirement needs
- Mortgage – Only 5 of the 13 banks asked about other products during a mortgage application conversation

We believe that banks are missing golden opportunities to leverage these account opening events, where customers are fully engaged in discussing their financial relationships. Customer needs discovery at these times can strongly influence cross-sell later – but many banks are missing out on this. They're promising all the right things but typically failing to deliver.

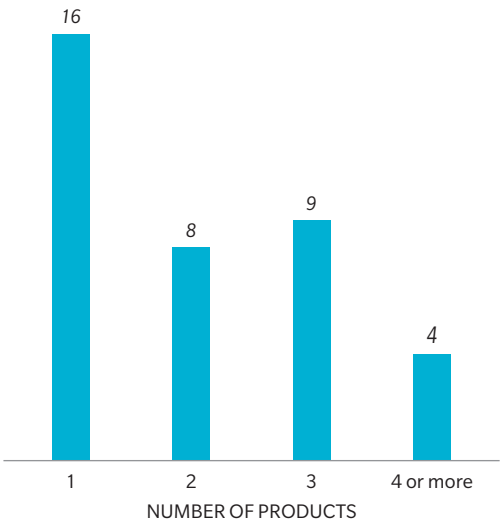
THE (OVER) PROMISE

Large banks have publicly stated their intent to deepen customer relationships, especially those where they have the customer's primary checking account. Theoretically this adds revenue and profits at lower all-in origination costs. Our analysis also shows that customers with deeper relationships tend to attrite less, even after controlling for confounding factors such as income and investable assets.

Yet, the average consumer today has less than one additional banking product with their primary checking bank. This is a clear lost opportunity when 55% of consumers agree that there would be benefits to having multiple products with the same bank[1]. So both sides want to consolidate the relationship – consumers appreciate the ease and transparency of having their accounts in one place, and banks want more profitable and stickier relationships. So why doesn't it happen more?

EXHIBIT 1: ANNUAL PRIMARY DDA ATTRITION RATE BY NUMBER OF PRODUCTS AT PRIMARY BANK

% OF RESPONDENTS WITH $50–150 K ANNUAL INCOME AND $100–500 K IN INVESTABLE ASSETS



Source: Oliver Wyman 2012 Survey of Consumer Finances

1 Source: Oliver Wyman 2012 Survey of Consumer Finances (n=5,000)

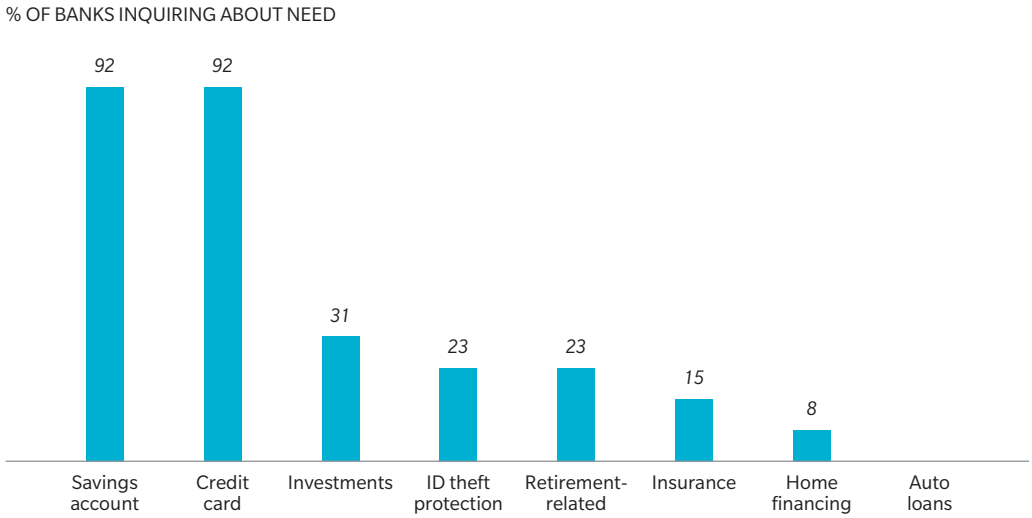
THE (UNDER) DELIVERY

Our research shows that most banks are not leveraging their key opportunity to deepen relationships. We mystery shopped 13 large banks[2] to understand their processes for opening a checking account in a branch. This is likely the best captive audience a banker can ever have – the customer is engaged, has taken out time from her busy schedule and has already committed to starting a relationship. This should be where banks translate "deepening intent" into action.

- **The good news**: every bank tried to determine if the customer needed other banking products and almost every bank asked about savings accounts and credit cards
- **The bad news**: only five banks asked about other needs and only two banks had the customer undergo a holistic assessment to understand current and future financial needs (see Exhibit 2)

At a certain level, the data in Exhibit 2 is intuitive. Savings accounts belong to the same deposits product family as checking, a customer's open-to-buy on credit cards is usually higher than any other retail banking product and both of these products are also very profitable.

EXHIBIT 2: ADDITIONAL PRODUCTS THAT BANKS ENQUIRED ABOUT*



* When a mystery shopper was opening a checking account

Source: Oliver Wyman 2013 Mystery Shopper

2 Including Bank of America, BB&T, Capital One, Chase, Citibank, Fifth Third, HSBC, PNC Bank, SunTrust, TD Bank, US Bank and Wells Fargo. Branches mystery shopped were located in New York, Washington DC, Atlanta, Boston, Cincinnati and San Francisco

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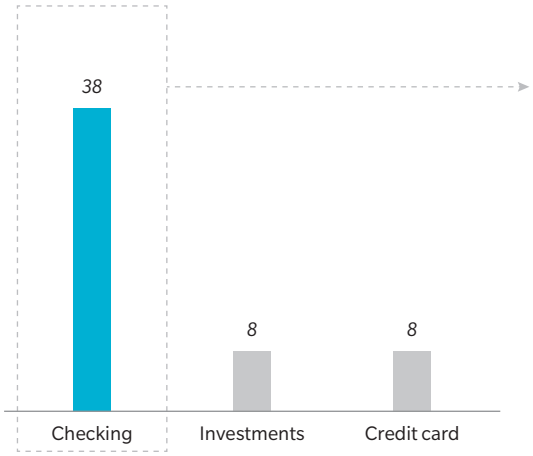
However, by not discussing investments or retirement-related needs, banks are missing out on a huge opportunity. 22% of US households have more than $150 K in investable assets[3] and would be very profitable investment customers, so at the very least, banks should try and understand if this need exists. We also believe that banks are missing out on a big opportunity to capture IRA rollovers as an entry point to a broader investments relationship[4]. Therefore, understanding how customers are thinking about retirement is particularly relevant.

The results are even worse for the mortgage application process – only five banks even asked about other products and mostly only checking accounts.

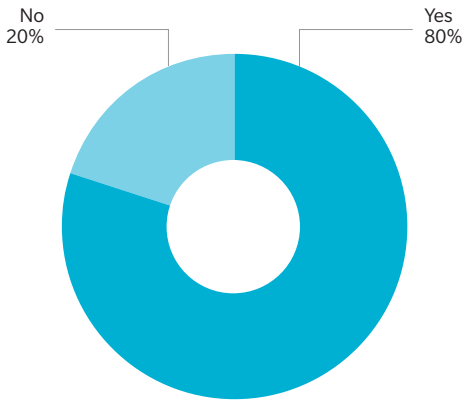
Yet some banks do see an opportunity to leverage the mortgage application process to convert mono-product customers into deeper relationships. These banks make mortgage pricing contingent on the ownership of checking accounts. The typical offer was a rate discount on the mortgage (off the published rate) if monthly payments were automatically deducted from a linked checking account. A few banks also linked mortgage pricing to having an investment relationship with the bank. Since customers are far more price-sensitive on mortgages than any other banking product, it makes sense for banks to leverage it via this mechanism (subject to compliance with anti-tying rules).

EXHIBIT 3: RELATIONSHIP SELLING IN MORTGAGE

Q. WHAT OTHER PRODUCTS DID THE BANK TRY TO SELL YOU?
% OF BANKS OFFERING OTHER PRODUCTS



Q. DID THE BANK MAKE MORTGAGE PRICING CONTINGENT ON OTHER PRODUCTS?
% OF BANKS TRYING TO SELL CHECKING WITH MORTGAGE



Source: Oliver Wyman 2013 Mystery Shopper

3 Source: US Census Bureau, Survey of Income and Program Participation 2011 update and Oliver Wyman analysis

4 See our white paper: *"Retail Banks & the IRA Rollover Opportunity: Down But Not Out"*

HOW BANKS CAN IMPROVE

We see three main levers to deepen customer relationships:

SALES PROCESS AND INCENTIVES REDESIGN

Our experience suggests that banks need to rethink their sales processes, whether in the branch or other channels, to take better advantage of the origination interaction. Opening a checking account is often a consumer's first contact with a bank and offers an excellent opportunity to introduce a wider suite of products. While many banks have focused on reducing the amount of time it takes to open an account[5], the leading banks use this opportunity to identify the full breadth of financial needs, resulting in a longer overall process. One commonly-heard objection is that customers will be put off by incessant questioning, but that is largely a function of training. If branch salespeople act as if they're reading off a script, they will come across as too pushy. The best banks have a conversational sales process that feels like a banker is really trying to understand how she can be more helpful to her customer; whereas at underperforming banks this feels more like filling out a form.

Incentives, particularly for referrals, are also critical to deepening the customer relationship beyond deposit products. For example, few bankers are equipped to talk about investments, so they should be incented to bring in product specialists once a need has been identified.

BUILDING A DISTINCT "CONSOLIDATION EXPERIENCE"

For customers who are seeking multiple relationships, banks can create a separate process that focuses on taking out the associated friction. For example, customers who decide to open a checking account while taking out a mortgage can be routed to a separate queue for processing. This should not be done on a blanket basis for all such customers, only where the incremental value justifies the additional cost – hence should be based on mortgage amount and expected checking balances.

5 Only 24% of customers are hassled by the time it takes to open a checking account in a branch according to the 2013 Oliver Wyman Customer Experience Survey

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RELATIONSHIP PRICING

Banks need to get smarter at using relationship pricing, both from a structural and an articulation perspective. Mortgage rate discounts for acquiring checking relationships are effective, but only if priced correctly and in the appropriate situation. In our mystery shopping, one bank communicated that their best price was contingent on the applicant setting up automatic monthly payments from a linked checking account, but didn't explicitly offer a discount. Given the economics of a mortgage, even a small discount may be value-destroying and should only be used where the benefit exchange is suitable, for example in a jumbo mortgage being taken by a high-net-worth client. Relationship pricing should also focus on reinforcing desired behaviors on an ongoing basis, e.g. fee waivers on checking accounts tied to credit card usage. One-off discounts are less effective in delivering a long-term relationship, since they reinforce a transactional element.

Our research shows that there is significant deepening opportunity associated with a customer's first interaction with the bank. Yet most large banks have a long way to go before they can capture this opportunity. The old adage "well-begun is half done" may never have been truer.

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