RETAIL ADVICE IN THE BANKING SECTOR:

BEST PRACTICES

By Nicolas Beltran and Adam King

INTRODUCTION

In our blog Retail Advice In The Banking Sector: An Area Ripe For Development, we explored the barriers banks and insurers face when implementing a successful retail advice strategy. In this follow-up, we look at best practices from industry leaders in the retail advice space.

In the last two years, Capco has advised more than seven financial institutions on planning and executing on their retail advice strategies. We conducted an extensive 18-month research study on the approaches that twenty-one financial institutions have taken to implement retail advice, and distilled the learnings into five key best practices demonstrated by leaders in this domain.

Based on our research, RBC (Canada), USAA (US), ITAU (Brazil), Commonwealth Bank (Australia), and ABN AMRO (UK) are examples of banks that have scaled digital advice and, in one way or another, are implementing the best practices described below.

FEATURE STRATEGIC VERSUS FEATURE RICH

There is a tendency to believe retail advice must be feature-rich to be meaningful and achieve scale. In reality, the banks that are leaders on retail advice become successful before they finish rolling out all the features shown in the figure below. Instead, they take a sequential and organized approach to rolling out their offer.

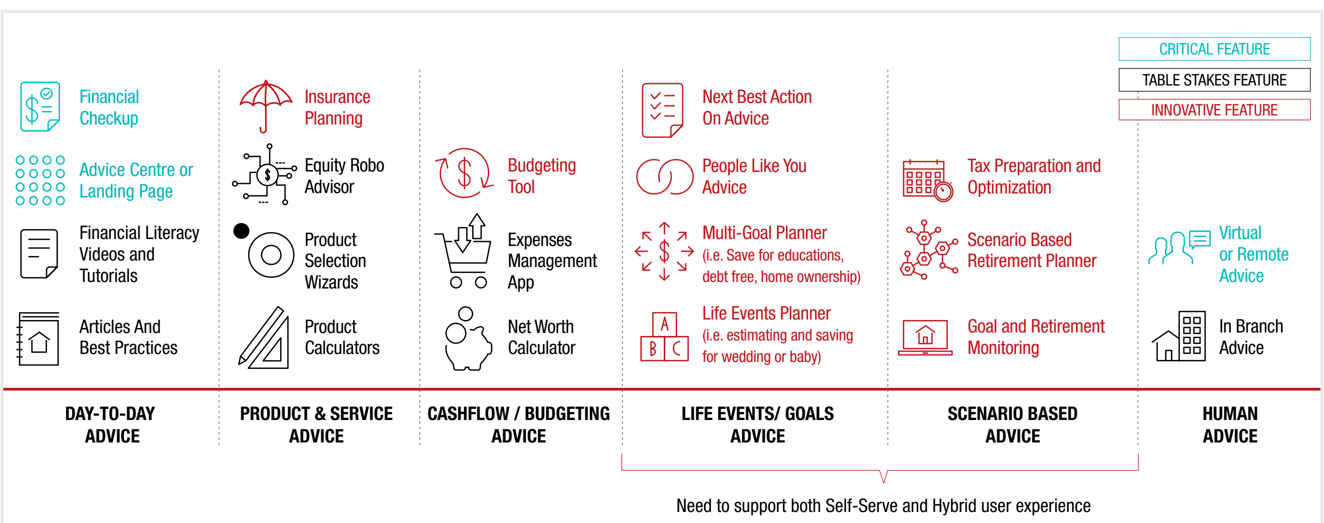


Fig 1. *Advice features can be classified into three categories: table stakes features, enabling features and innovative features.*

Most tier 1 banks already have a good range of table stakes features, like financial literacy articles, product selection tools, and expense management apps. However, leading retail advice banks are more likely to prioritize the delivery of enabling features over the creation of innovative features.

By enabling features, customers can browse and access a bank's self-serve advice tools. These also serve as channels that customers will use to seek advice from a person, although this will most often still be an online experience. This is key to driving adoption for other features and giving the client a sense that they are receiving holistic advice. Examples of enabling features are advice centers or advice portals that allow access to articles, advice tools, and even real-time goal monitoring. Financial checkups or financial journeys are enabling tools that will enable banks to understand the client's advice needs. Finally, collaboration tools and processes allow advisors to have meetings remotely, digitally, and effectively with clients.

Once banks have matured their table stakes and enabling features, the next step is to expand into a more innovative territory. These features involve more complex types of advice like financial or retirement planning, or 'people like you' - an offering that helps clients make financial decisions and reach goals based on the data gathered from a comparable peer group.

SEGMENTATION BY BEHAVIOUR

Banks with successful retail advice strategies achieve great adoption rates when segmenting the market by behavior. Historically, they segmented clients by wealth-factor, providing advice predominantly to the retail market's wealthiest 20 percent. However, that resulted in a branch-centric model. Today, customers are moving away from the branch-centric model towards more accessible services via the internet or phone. Segmentation by behavior has helped banks focus on those clients willing to receive advice using a hybrid model of self-serve and assisted advisory.

A good example of segmentation by behavior is Forrester's Investor's Segmentation (below). While this was originally created to segment investors, it's still a great tool to use to segment customers for the retail advice space. Banks with successful retail advice strategies focus primarily on the self-directed segment (those that will advise themselves entirely) and the validators (those that are willing to do a piece of the advice by themselves but will eventually require guidance). These customers are most likely to adopt the hybrid advice model that banks are able to offer.

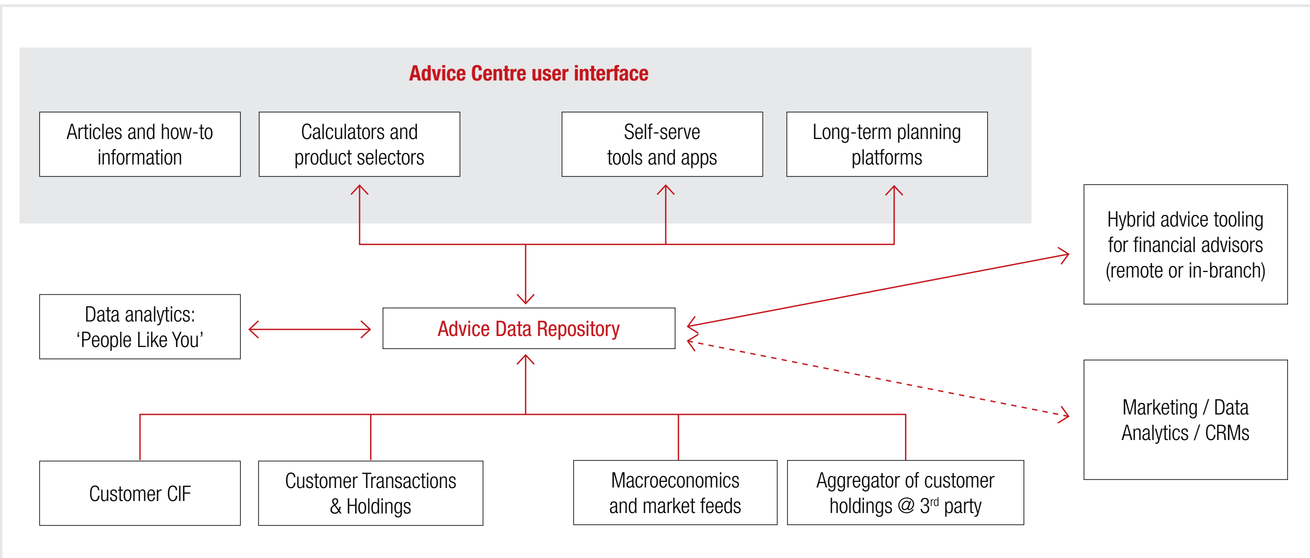
Forrester's Investor Segmentation	Retail Advice expected behaviors	
Disengaged	• Does not do financial planning • Sporadic users of how-to advice for day-to-day processes	
Self-Directed	• Heavy users of how-to advice • Heavy users of product and budgeting tools • Heavy users of scenario-based advice tools • Heavy users of chatrooms, or peer-to-peer help	Mean age: 49 Mean income: ~$100K Mean assets: ~$392K % employed: 73% % retired: 19% % who use a financial advisor*: 8%
Validators	• Users of how-to advice • Users of product and budgeting tools • Users of complex advice self-serve tools • Need human help to complete their self-serve work	Mean age: 44 Mean income: ~$96K Mean assets: ~$384K % employed: 79% % retired: 13% % who have a financial advisor: 39%*
Delegators	• Sporadic user of how-to advice for day-to-day processes • Rare user of product and/or budgeting tools • Has already established a trusted relationship with bank/branch personnel • Trusts financial advisor expertise and needs the whole experience in person	

JOURNEYS ARE NOT LINEAR

Initially, banks thought they would manage and control the way retail clients consumed advice but soon realized that the needs, behaviors, and financial literacy across clients are highly diverse. A retail client's journey is not a linear one; it is complex and unpredictable. Some retail clients will go directly into financial and retirement planning without researching beforehand. Other clients will take a more methodical approach, electing to do their research first and then contacting a virtual advisor to consult on the next steps. The main takeaway from leader banks is to be prepared for all types of client journeys. One way to achieve this is through an advice center that resembles a restaurant menu - presenting a selection of recommended offerings. Clients can select what suits them best or even tailor a solution from scratch.

TECHNICAL BUILDING BLOCKS

Retail advice does not require complex architecture. You can unlock most of the retail advice value through a cohesive front-end, robust data integration, emphasizing extracting relevant data from different advice apps or features into a centralized repository. This information will help improve the advice tools currently available and provide information for future long-term planning platforms. It also reduces the need to capture data from customers repeatedly, facilitates innovative features like 'people like you,' unlocks actionable customer volunteered data for CRM and marketing and helps unlock the potential functionality of long-term advice platforms.



Blog based on a study by Nicolas Beltran, Ioannis Vassilopolus, Maria Delatorre, Vishal Kamath

For more information on how Capco can help you create and execute a retail advice strategy, please contact **solutions@capco.com**.

WWW.CAPCO.COM

CAPCO

JN_2716