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# Engaging Self-Directed Retirement Investors

BY WAYNE CUTLER

American households are making more retirement investment decisions on their own, often placing nest egg balances in different types of accounts at multiple institutions. And a huge chunk of that money has gone into everyday banking products.

At yearend 2008, for example, our research indicates that households held roughly $8.6 trillion of retirement balances in certificates of deposit, money market deposit accounts, money market mutual funds, and other types of retail savings and investment accounts. It is money that flowed into financial institutions primarily through individual product purchases, usually with no signal that it is earmarked for retirement.

One handicap for banks is that that customer interaction with this "shadow retirement market" often is limited to fulfilling transactions. There's precious little customer dialogue when the bank is serving self-directed retirement investors, and scant insight into how these products fit within the overall context of household retirement plans and goals.

Within a typical retail bank CD portfolio, it is not uncommon to find that from half to three fourths of all balances are retirement-earmarked funds from single-account household relationships. That spells exposure as a recovering market presents more compelling investment alternatives, as well as lost opportunity to assist households in achieving their larger retirement goals.

The upshot is that retail banks have a lot of work to do in reaching out to shadow retirement accountholders in 2010. At a time when households are generally reconsidering their retirement plans in a recovering market, banks cannot limit their role to one-off product sales. Longer term, banks are facing huge outflows as baby boomers retire and begin to draw down balances to take care of daily expenses and travel.

As an illustration of what's at stake, our research indicates that banks derived somewhere between $6.5 billion and $7.5 billion of revenues in 2008 from their share of sales, advisory and service activities connected with shadow retirement balances held in everyday investment and savings products.

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**Investigation**. In setting the stage for action, one priority is learning more about the customer base. Compared with "structured product lines" – such as 401(k) plans, individual retirement accounts, pension accounts and annuities – shadow retirement accounts offer far fewer clues about household circumstances and goals.

A thorough investigation can include conversations with customers and branch sales staff, formal customer surveys, and database projects that match internal information on accounts with household data gleaned from external sources. Along with identifying priority customer groups, this research helps the bank to estimate the scope of CD and savings product balances likely held for retirement purposes.

**Outreach**. The second priority is forging stronger ties with retirement-oriented customers. Nationally, banks have had mixed results in expanding retail banking relationships to include an investments context. Cross-sell results range from as little as 2% to as high as 20% penetration of the retail customer base, with most banks still hovering well below 10%, according to our research.

One strategy is to broaden the availability of financial planning services in the branch. This can be done by training bankers who can act as focal points for investment-related conversations, help customers with planning and then either fulfill transactions themselves or tap specialized expertise elsewhere within the bank.

By building customer rapport in this way, the bank increases the odds that CD and savings accountholders will touch base with their branch bankers and consider the bank's own investment offerings when they get ready to shift retirement balances away from everyday banking products.

Marketing plays an important role in the customer outreach as well, but ironically, banks have been woefully absent from marketing campaigns centered on the consumer retirement agenda. For example, a two-month review of banks and wealth management company advertisements in the *New York Times* and *Wall Street Journal* revealed that not one bank had placed an ad focused on retirement, while wealth management firms had published nearly two dozen.

**Innovation**. Product innovation is a third priority. If people already are buying CDs for retirement purposes, why not infuse products with investment- and retirement-flavored attributes to win and retain more of their business?

This shift is underway internationally. In Hong Kong, for example, Hang Seng Bank Ltd. offers a line of "capital protected investment products," one of which combines the upside potential of gold bullion with the safety of term deposits.

Another example comes from Dublin-based Bank of Ireland Group, which has introduced "golden years deposits," a savings product targeted to the 60+ age bracket that allows customers to earn high fixed-term rates while retaining the flexibility to withdraw up to 25% of principal once during the deposit's term, penalty free.

## TEAM APPROACH

As U.S. banks work to bring such ideas to life, many will need to improve the level of cooperation between their retail banking and wealth management subsidiaries. Often today, these two business lines overly focus on their own product sales – even to the point of open rivalry over customer relationships and commissions – overlooking substantial opportunities to jointly meet larger customer needs.

To forge strong ties between the banking and wealth divisions, one East Coast bank created a standing committee, composed of bank and wealth managers, that was charged with creating a joint marketing agenda, including customer programs and goals for both bank and wealth products.

As a starting point, the group focused on single-CD account holders, with the goal of strengthening customer relationships, introducing retirement-tailored CD products and also

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introducing other investment alternatives, such as fixed and variable annuities. Along with targeting households, such programs work best when they consciously include small business proprietors, a lucrative customer segment that interacts heavily with the retail branch network.

The committee now meets quarterly to review progress and make course corrections as necessary, and the initiative is supported by a central marketing group that designs the products and produces the customer calling lists and programs.

This level of commitment is amply justified in a market where trillions of retirement dollars have been placed into everyday banking products. Instead of passively watching these balances ebb and flow, alert institutions will step up their efforts to detect and meet the unspoken needs of shadow retirement accountholders.

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