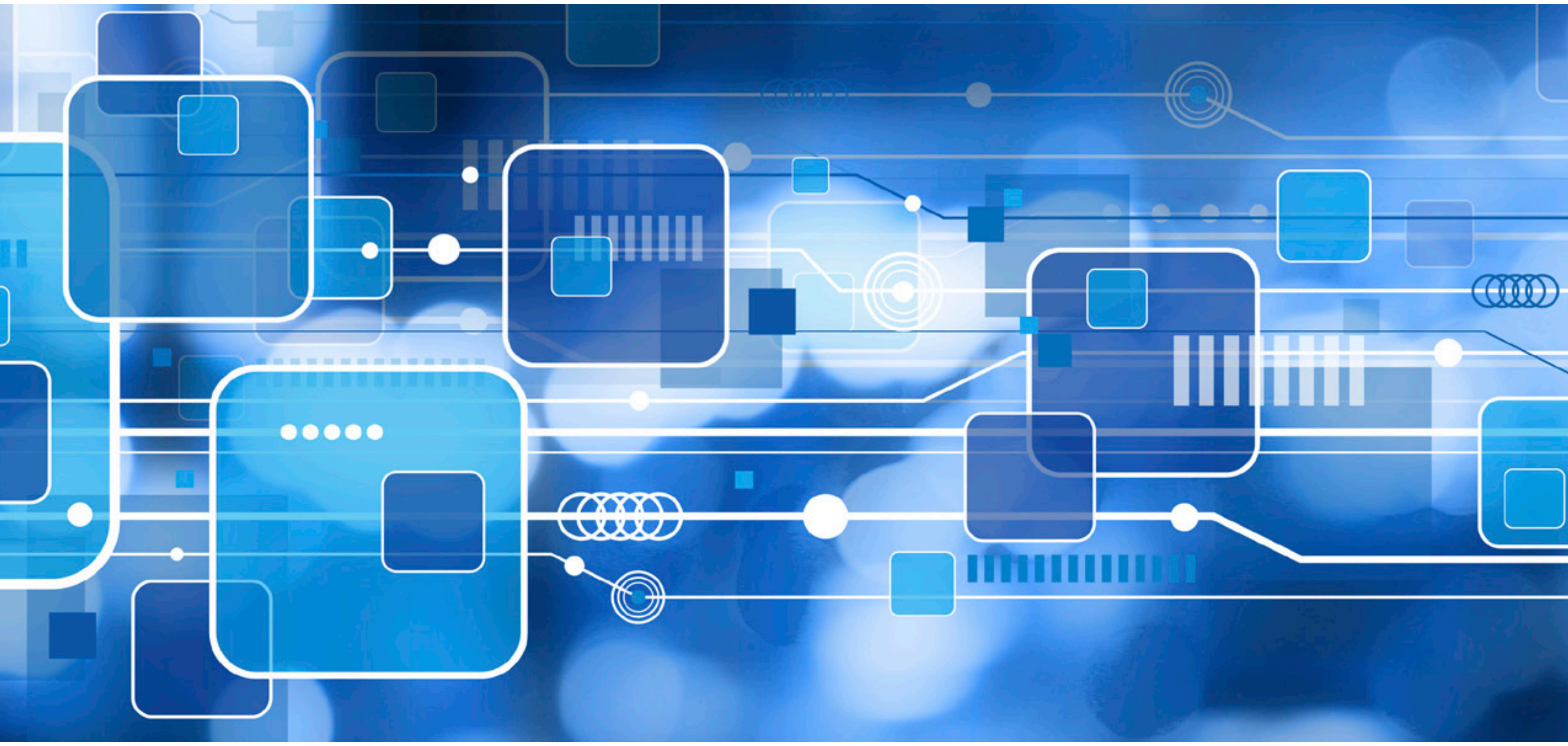
The Value Of An Investment Client To A Bank Or Credit Union

January 2015



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ABOUT THIS STUDY

INSIDE

In 2012 we published a landmark consumer study on the value of an investment and life insurance client to a financial institution. That study examined the households that have an investment relationship where they bank, and confirmed that they are among the most attractive bank customers or credit union members. More importantly, the study revealed that establishing an investment relationship with a client resulted in a dramatic increase in client loyalty, much more so than increasing the number of banking relationships. The study concluded that banks and credit unions are underpenetrating their opportunity in investment services, and that they can better achieve their objective of deepening client relationships by shifting more resources to investment services.

We have had many requests to update this study with fresh consumer data, both to confirm the findings and to broaden the analysis to include credit unions.

Once again we analyze data from the most recent *MacroMonitor* survey, the gold standard of consumer financial surveys. The *MacroMonitor* survey has been conducted every other year since 1978 by the Consumer Financial Decisions unit of Strategic Business Insights, formerly a unit of SRI International. It is the largest and most comprehensive survey of U.S. consumers' use of financial services and their perceptions and preferences for products and providers. The 2012/2013 *MacroMonitor* survey is a national sample of 4,261 households, with an oversample of 1,500 affluent households, reweighted to be representative of the U.S. population.

Our previous study was based on the 2010/2011 *MacroMonitor*, which had a similar sample size. We included life insurance products in the previous study, but excluded them in the current study due to uncertainty about whether survey respondents counted credit life as a life insurance product.

WHO INVESTS WHERE THEY BANK?

According to the *MacroMonitor*, 13.3% of U.S. households own an investment product purchased at their primary bank or credit union. Who are they?

Assets and Income: Common wisdom holds that households that invest where they bank are relatively downscale, more mass market than mass affluent, and that banks and credit unions have poor investment services penetration of more affluent segments. The data suggests otherwise.

While it is true that more than one-third of the households that own an investment purchased at their primary bank or credit union have less than $25,000 in financial assets (Fig. 1), and more than half have less than $100,000 to invest, 39% are mass affluent (with financial assets between $100,000 and $1 million), and the balance are even more affluent.

More importantly, bank and credit union penetration of their investment services opportunity generally increases by wealth market segment. About one-fifth of households with financial assets between $75,000 and $250,000 own an investment purchased at their primary depository institution, as do 17% of the upper mass affluent (financial assets between $250,000 and $1 million). More than four of ten households with over $3 million in financial assets have purchased an investment where they bank.

Similarly, while most of the households that own an investment purchased through their primary depository institution have modest incomes, bank and credit union penetration increases by income segment.

A solid majority (60%) of households that own an investment purchased at their primary bank or credit union have combined annual incomes of less than $75,000 (Fig. 2). Penetration within this segment is relatively low, with only 9% of households with incomes less than $25,000 owning an investment purchased from their primary depository institution, probably because these households are less likely to invest in general.

Banks and credit unions have been more successful at penetrating the higher income segments, but there are relatively few households in those segments. Only 13% of households that own an investment purchased from their primary depository institution have annual incomes greater than $150,000, but banks and credit unions have sold an investment product to nearly one out of five of those households.

Age and Life Stage: Older households are much more likely to own an investment purchased at their primary bank or credit union than are younger households. But younger households make up a large and growing

Fig. 1: Financial Assets of Households with an Investment Relationship with Their Primary Bank or Credit Union

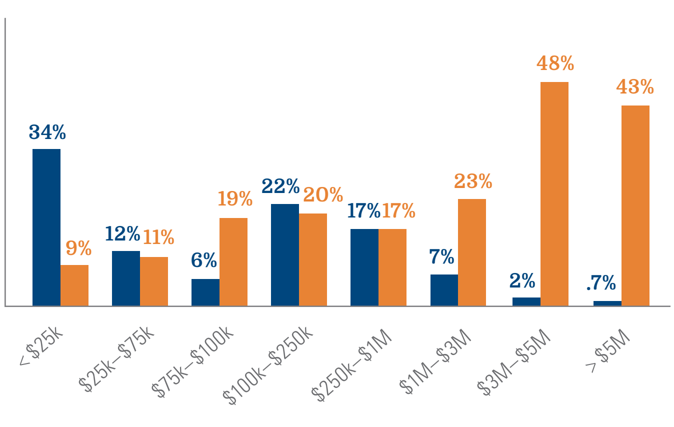
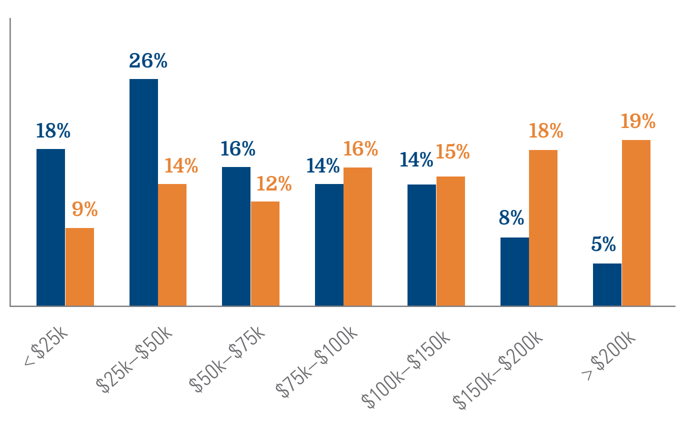


Fig. 2: Gross Income of Households with an Investment Relationship with Their Primary Bank or Credit Union



All U.S. Households that Purchased

Percent of Households in Asset Category that Purchased segment of all U.S. households, and are quickly becoming attractive investment clients as they accumulate assets and begin planning for retirement.

Households headed by members of the Greatest Generation are the most likely to own an investment purchased at their primary depository institution—with 21% of them having done so—but those households account for only 4% of all U.S. households (Fig. 3). Likewise, 18% of households headed by members of the Silent Generation have purchased an investment product from their primary bank or credit union, but only 2% of U.S. households fall into that age segment.

Age Segments (Consumer Financial Decisions *MacroMonitor*)	
Title	Head of Household born
Gen Y	After 1982
Gen X	Between 1982 – 1963
Younger Boomers	Between 1954 – 1962
Older Boomers	Between 1946 – 1953
Silent Generation	Between 1930 – 1945
Greatest Generation	Before 1930

By contrast, households headed by members of Generation X or Generation Y comprise 37% of all U.S. households. To date, banks and credit unions have had limited success at penetrating the younger generations; 12% of Gen X households and 9% of Gen Y households own an investment purchased through their primary depository institution.

Baby Boomer households account for the same share of U.S. households as Gen X and Gen Y households, but bank and credit union penetration of the Baby Boomer segment is much stronger. Among households headed by Younger Boomers, 13% own an investment purchased at their primary depository institution, as have 17% of households headed by older boomers.

Similarly, bank and credit union investment services penetration increases by life stage segment, with older retired households at least 70% more likely to own an investment purchased at their primary depository institution than households without children or with younger children (Fig. 4).

Banks and credit unions have also achieved solid penetration among households with older children, those nearing retirement, and younger retired households. Roughly 15% of households in those segments, which account for 60% of all U.S. households, own an investment purchased at their primary depository institution.

Fig. 3: Age of Households with an Investment Relationship with Their Primary Bank or Credit Union

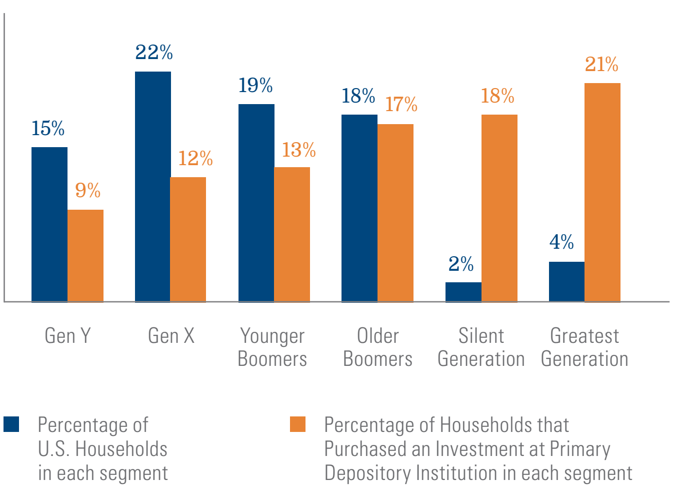
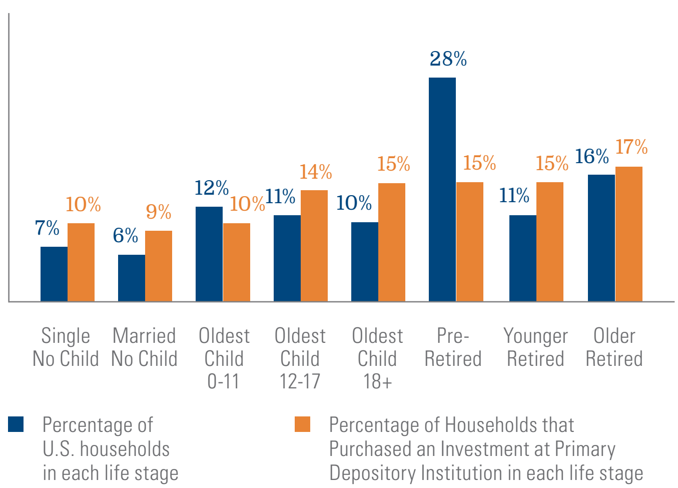


Fig. 4: Life Stage of Households with an Investment Relationship with Their Primary Bank or Credit Union



INVESTMENT HOUSEHOLDS ARE VERY DESIRABLE BANKING HOUSEHOLDS

Households that own an investment purchased through their primary bank or credit union are among the most profitable for the banking enterprise, because they maintain larger average checking and savings account balances, and because they are more likely to utilize credit products offered by the institution.

Checking and Savings Balances: The typical household that owns an investment purchased from their primary depository institution maintains a 38% larger average checking account balance than a household that does not have an investment relationship (Fig. 5).

Even more striking, households that have established an investment relationship with their primary bank or credit union have an average of $28,000 in savings—40% greater than the average savings account balance of other households.

It is worth noting that not all of these checking and savings account assets reside with the household's primary depository institution. The data nonetheless demonstrates that investment clients have a greater propensity to maintain large account balances in products that are highly profitable for the institution, making them very attractive clients.

Credit Products: A similar picture emerges when we analyze these households' use of credit products. Households that have purchased an investment from their primary bank or credit union are 58% more likely to have a credit card, 122% more likely to have a first mortgage, and 613% more likely to have a second mortgage than other households (Fig. 6).

Investment client households are also at least twice as likely to have a line of credit or a vehicle loan or lease than households that do not have an investment relationship with their primary bank or credit union.

Asset Management and Advisory Accounts: Bank and credit union management have recently emphasized the importance of growing assets held in asset management accounts and advisory accounts, both for the recurring revenue they generate for the institution and the belief that these accounts better serve the needs of their investment clients. The data suggests that households that already own an investment purchased from their primary bank or credit union are much more likely to have one or both of these types of accounts.

Fig. 5: Average Checking and Savings Account Balances, by Investment Relationship with Primary Bank or Credit Union

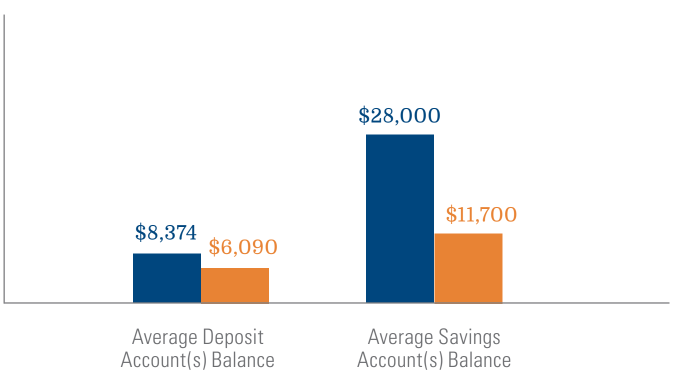
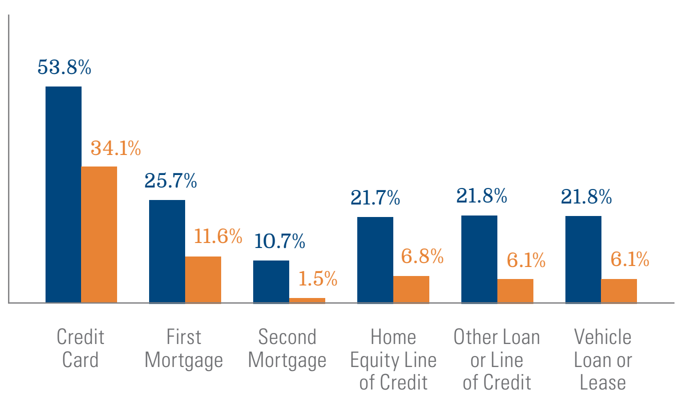


Fig. 6: Use of Credit Products, by Investment Relationship with Primary Bank or Credit Union



Purchased an Investment at Primary Financial Institution   Did Not Purchase an Investment at Primary Financial Institution

The average household that has established an investment relationship with their bank or credit union has nearly 1.6 times the number of asset management accounts held by the average client household without an investment account. Investment client households also have 1.5 times the number of advisory accounts held by other households (Fig. 7).

Households that have established an investment relationship with their primary depository institution also maintain much higher average balances in their asset management accounts and advisory accounts.

The average household that has established an investment relationship with their bank or credit union maintains an average asset management account balance that is 139% greater than other client households. Investment client households likewise maintain average advisory account balances that are 175% greater than the average advisory account owned by non-investment client households (Fig. 8).

We know that the typical investment client household owns a greater number of asset management and advisory accounts and maintains higher average balances in those accounts than the typical household that does not own an investment product purchased at their primary depository institution. This fact alone makes them attractive clients for banks and credit unions, but it does not tell us where these households purchased their asset management and advisory accounts.

As it turns out, households that have purchased an investment from their primary bank or credit union are also likely to have purchased their asset management or advisory accounts at a bank or credit union. Investment client households are nearly three times as likely to have purchased an asset management account from a bank and more than twice as likely to have purchased one from a credit union than are non-investment client households (Fig 9).

Investment client households are even more likely to have purchased an advisory account from a bank or credit union than they are to have purchased an asset management account.

Fig. 7: Ownership of Investment Accounts, by Investment Relationship with Bank or Credit Union

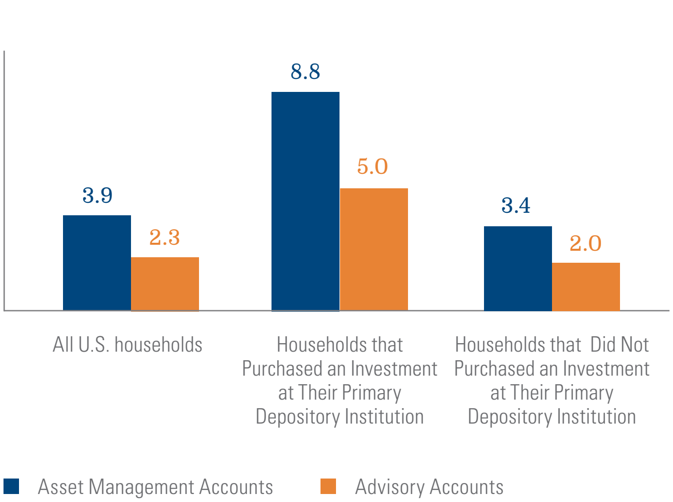
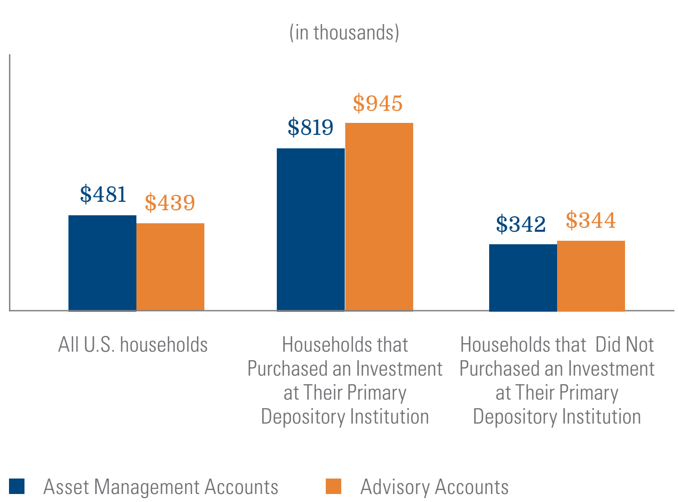


Fig. 8: Average Balances in Asset Management Accounts, by Investment Relationship with Bank or Credit Union



Financial Advice: Households that own an investment purchased at their primary bank or credit union are more likely to turn to that institution for financial advice than other households.

When asked where they would turn for advice on investing or saving a $25,000 windfall, nearly 25% of households with an investment relationship with their primary financial institution said that they would go to a bank, and more than 11% said they would go to a credit union. That makes these households 29% more likely to turn to a bank for advice, and 15% more likely to turn to a credit union for advice, than households that do not own an investment purchased from their primary depository institution (Fig. 10).

In this data we can begin to observe the long-term value that an investment client brings to a financial institution—establishing an investment relationship with them once greatly increases the likelihood that they will return to your institution for their future investment and planning needs.

more likely to turn to a bank for advice

more likely to turn to a credit union for advice

Fig. 9: Where Household Purchased Asset Management or Advisory Account, by Investment Relationship with Bank or Credit Union

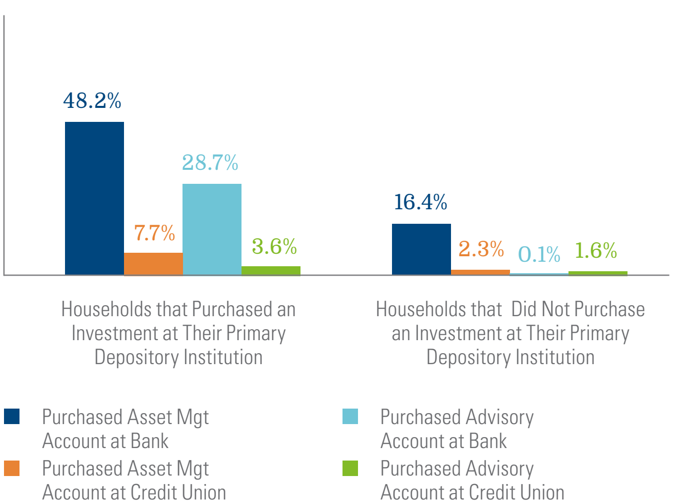
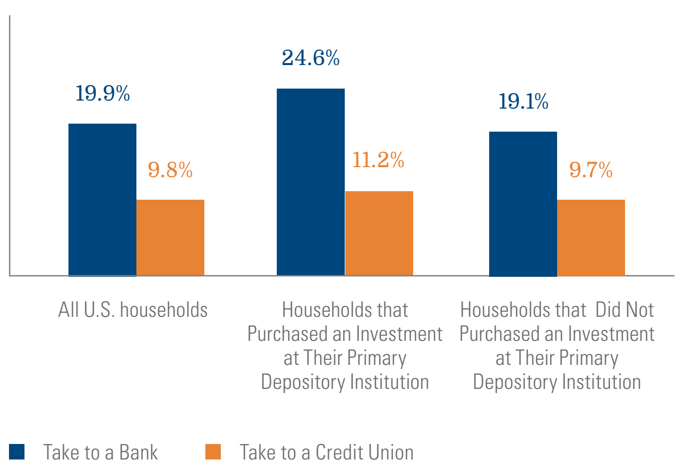


Fig. 10: Where Household Would Save or Invest a $25,000 Windfall, by Investment Relationship with Primary Bank or Credit Union



IMPACT ON CLIENT LOYALTY

The startling insight of our 2012 study was that establishing an investment relationship with an existing banking client results in a dramatic increase in client loyalty, and that investment products create more client "stickiness" than selling the client an additional banking product or service. Our current research confirms those findings.

The *MacroMonitor* survey asks respondents about their loyalty to their primary depository institution. One survey question asks the respondent whether the household is thinking about switching to another institution. Almost one in four households say they would not consider changing their primary bank or credit union. But almost half of the households that have purchased an investment at their primary bank say they would not switch. That is an "eyebrow-raising" 27% increase in the percent of households that express this level of loyalty.

We have all heard bankers recite the studies that show that the more banking relationships a client has, the less likely the client is to leave the institution. And indeed, one view of the *MacroMonitor* data confirms those studies; 57.7% of the households that have 10 or more banking relationships with an institution say they would not consider switching, compared to just 36.2% of the households with one to four banking relationships at their primary bank or credit union. (Fig. 11)

On the other hand, breaking down the data indicates that the "stickiness" of additional banking products or services is not true for every, or even most, households. The average household has 5.5 banking relationships with its primary institution. But only one-third of households that have six banking products say they would not switch institutions, compared to 41.2% of households with five banking products at their primary bank or credit union. That suggests that selling an additional banking service to the typical household reduces their loyalty by 20%, by this measure (Fig. 12).

If that typical household has purchased an investment at the institution, adding an additional banking product does not diminish loyalty.

Comparing households with many banking relationships with households with few relationships obscures the insight that the real gains in loyalty from adding additional banking products and services do not come until after nine product relationships. For most households—those with five to nine products or services—adding another banking service either does not increase loyalty or diminishes it.

Note that, at almost every number of banking products used, if the household has an investment relationship with the institution the percent who say they would not switch is higher.

Fig. 11: Impact of Number of Banking Relationships on Customer Loyalty, by Investment Relationship with Primary Depository Institution

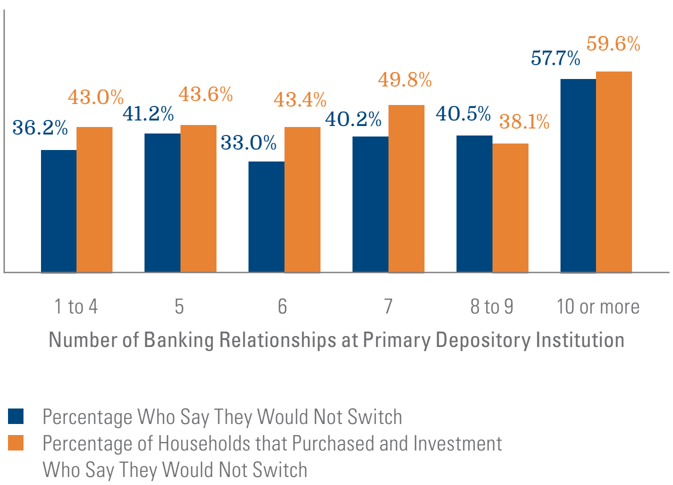
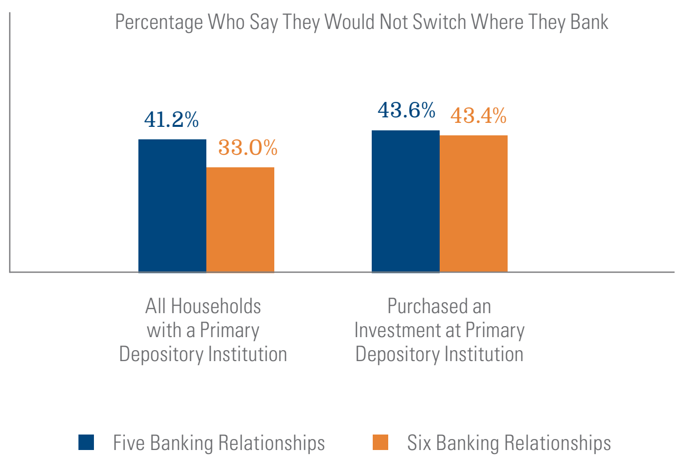


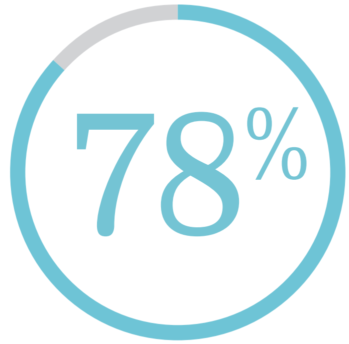
Fig. 12: Impact on Customer Loyalty of Adding a Banking Relationship for Average Customer, by Existence of Investment Relationship



Who Are These Loyal Investment Clients? As discussed earlier, there is a tendency to think of households that invest where they bank as being somewhat downscale. But the households that have purchased an investment at their primary bank or credit union, and say they would not consider switching institutions, are more upscale than the typical bank or credit union client. One-fourth are lower mass affluent, and more than one-fifth have over $250,000 in financial assets (Fig. 13).

Other Measures of Client Loyalty: Of course, whether a client is considering switching their bank or credit union is not the only measure of client loyalty. The *MacroMonitor* provides others.

One is whether a household would recommend its primary depository institution. Most households would; 78% of respondents indicated that they would recommend the institution where they bank. If the household has an investment relationship where it banks, the percent that would recommend the institution increases 6% to 82.8%(Fig. 14).



of respondents indicated that they would recommend the institution where they bank

Fig. 13: Financial Assets of Households that Purchased an Investment from Their Primary Bank or Credit Union Who Say They Would Not Switch Where They Bank

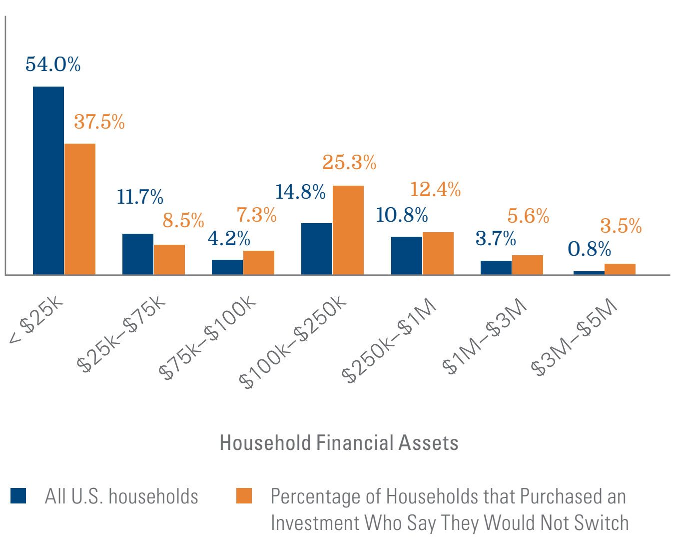
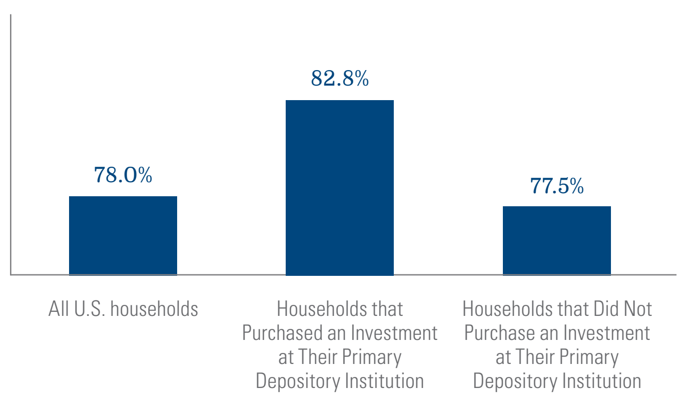


Fig. 14: Impact of An Investment Relationship on Willingness to Recommend a Depository Institution



Another measure of loyalty is how the respondent views banks and credit unions as a source of advice about savings and investments. Almost one in four households say that banks and credit unions are the best source for that advice. More than half of the households that have purchased an investment at their primary depository institution say that banks and credit unions are the best source for advice about saving and investing, a 45% increase in this measure of loyalty (Fig. 15).

Of course, purchasing an investment where they bank indicates that clients are voting this confidence with their dollars.

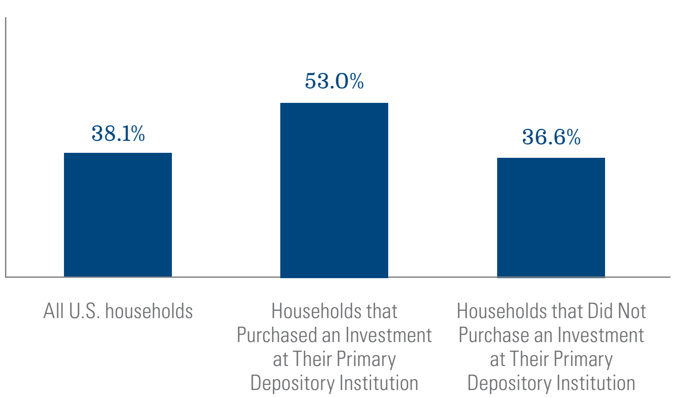
Implications for Investment Services in the Institution: Clients who establish an investment relationship at their bank or credit union are much more likely to be sticky clients—they are very much more likely to say they would not switch institutions, are more likely to recommend their bank or credit union, and are much more likely to turn to banks and credit unions for advice about savings and investments. And the institution that establishes an investment relationship with a banking client is more likely to keep that client than if it managed to sell the client an additional banking product or service.

The implication of these findings for how banks and credit unions view investment services is profound.

The direct income contribution of most institutions' investment unit has been modest, with only a few firms contributing as much as 5% to the overall enterprise's net income. While the potential exists for greater contribution, investment services cannot be expected to be a major contributor compared to deposits and lending. But it is now clear that developing investment relationships with clients increases their stickiness, and hence makes all those deposit and lending products more profitable, because clients will be using them longer. The direct income contribution from investment services is just the tip of the iceberg; the more important contribution comes from making banking more profitable, and even increasing the loyalty-inducing and income-generating contribution of adding more banking services.

Banks and credit unions have doubled down on investing in ways to get clients to add additional services. Management resources, incentive compensation and marketing dollars have been focused on that strategy. As a result, financial institutions have underinvested in investment services. But investments in additional advisors and client-facing and back office technology appear to be a better way of achieving the central objective—increasing client longevity by deepening the relationship.

Fig. 15: Impact of An Investment Relationship on Agreeing that Banks and Credit Unions are the Best Source of Advice Regarding Savings and Investments



UNDER PENETRATION OF THE OPPORTUNITY

We have shown that households that invest where they bank are among the most desirable customers or members for banks and credit unions, and that investing in investment services is a strategic imperative for the retail bank. Despite this, financial institutions have fallen substantially short of penetrating their opportunity to capture the investment services business of their customers or members.

Primary and Preferred Financial Institution: The *MacroMonitor* survey asks respondents to identify the kind of firm that they consider to be their primary financial services provider. More than 9 of every 10 U.S. households consider a bank or credit union to be their primary provider. That leaves less than 1 in 10 for non-bank full-service brokerage firms, online direct brokerages, insurance and investment companies, etc. But banks have been relatively less successful selling investments to the households that consider banks to be their primary financial services provider; 62.3% of the households that have invested where they bank consider the bank their primary provider, compared to 70.7% of the general population (Fig. 16).

Credit unions have done a better job of penetrating the investment services opportunity among households that consider a credit union to be its primary financial services provider; 25.8% of households who purchased an investment at their credit union consider a credit union to be their primary provider, compared to only 20.4% of all U.S. households.

The *MacroMonitor* survey also asks respondents which kind of financial institution they would prefer to be their primary financial services provider. While banks continue to capture the lion's share of votes for preferred provider, they lose market share to credit unions under this scenario. The households that prefer to work with credit unions for their financial services needs increases 41% from 20.4% to 28.7% if members think they could offer all the services they need. In contrast, the households that would continue to prefer banks to be their primary provider falls 16% from almost 8 of 10 to about 6 of 10 if credit unions (and other providers) are considered to be full financial services providers. These findings underscore an advantage that credit unions have over banks in potentially capturing investment services business (Fig. 17).

Nonetheless, both banks and credit unions do a relatively better job of penetrating the investment services opportunity among households that would prefer to work with them than among those that consider banks or credit unions to be their primary financial services provider. The percentage of households that have purchased an investment at their primary bank or credit union, respectively, that would prefer to work with that kind of institution, is similar to the percentage of the general population that would prefer to work with a bank on the one hand, or a credit union on the other. But one would expect that banks and credit unions would have even better

Fig. 16: Primary Financial Services Provider by Investment Relationship with Bank or Credit Union

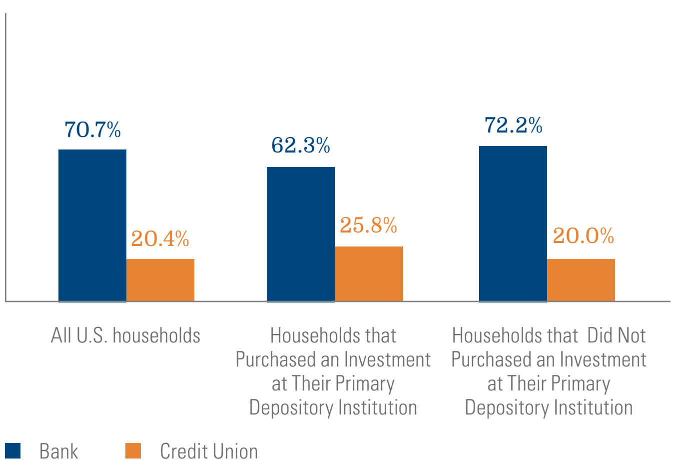
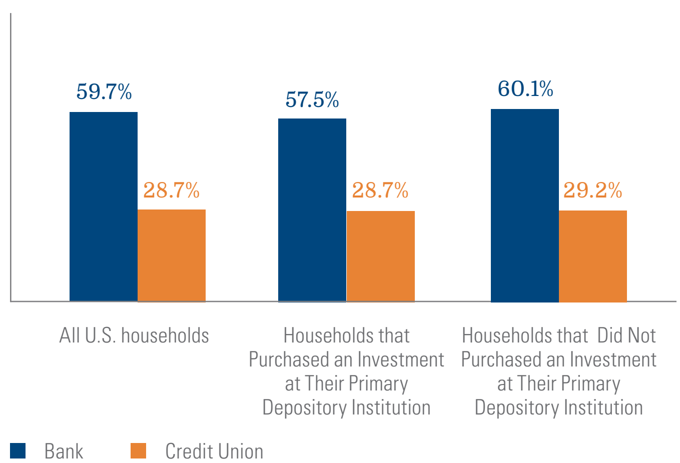


Fig. 17: Preferred Financial Services Provider by Investment Relationship with Bank or Credit Union



penetration of investment services among households that prefer to obtain their financial services from them.

Where Households Keep Their Assets: Of course, it matters more where households put their money than where they say they prefer to put it. Households keep slightly more than half of their financial assets in banks, and less than 10% in credit unions, on average. Discouragingly, households that have purchased an investment where they bank keep only 47.3% of their financial assets at a bank, 8% less than households that have not invested where they bank (Fig. 18).

Credit unions, on the other hand, capture relatively more of the financial assets of members who invest through the credit union; households that have an investment relationship with the credit union that is their primary depository institution keep 13.7% of their financial assets at a credit union, on average, or 56% more than member households that have not yet invested through the credit union. Credit unions are doing a better job of leveraging their position with their members.

Trust in the Financial Institution: That position is grounded in trust. Credit unions are by far the most trusted financial services provider. More than 4 in 10 households view credit unions with a great deal of trust. Banks capture that level of trust among one-third of U.S. households. Insurance companies come in a distant third. No other financial services provider is viewed with a great deal of trust by as much as 10% of all U.S. households (Fig. 20).

Seven times as many households view credit unions with a great deal of trust than have that level of trust in full-service brokerage firms. Banks enjoy an advantage almost six times over full-service broker/dealers in the percent of households who view them with a great deal of trust.

Yet banks and credit unions have established investment relationships with the households that trust them a great deal at a rate that is only slightly higher than their investment services penetration of the general population (13.3%). Among households that trust banks a great deal, 15.6% have purchased an investment at their primary bank, and 14.5% of households that trust credit unions a great deal have invested there. Note that by this measure, banks have better penetration of the opportunity than credit unions (Fig. 19).

But we would expect even better penetration among households that trust banks and credit unions a great deal. Their position as preferred financial services providers and the level of trust they enjoy underscores the opportunity they have to capture substantially more investments services business.

Fig. 18: Where Households Keep Their Financial Assets, by Investment Relationship with Primary Bank or Credit Union

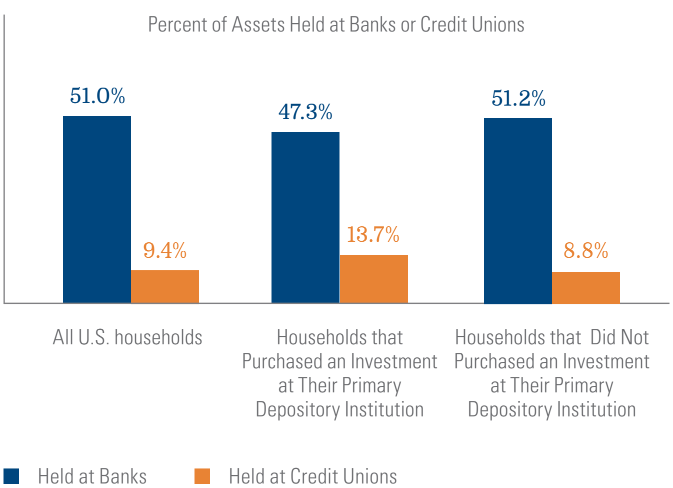


Fig. 19: Penetration of Investment Opportunity Among Households with a Great Deal of Trust in Depository Institutions

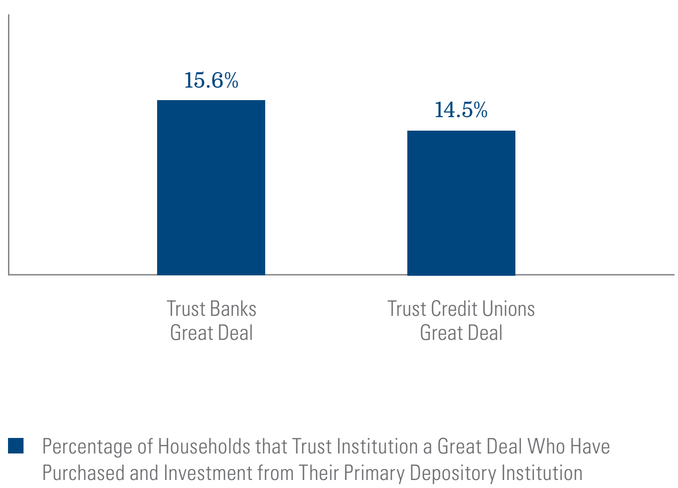
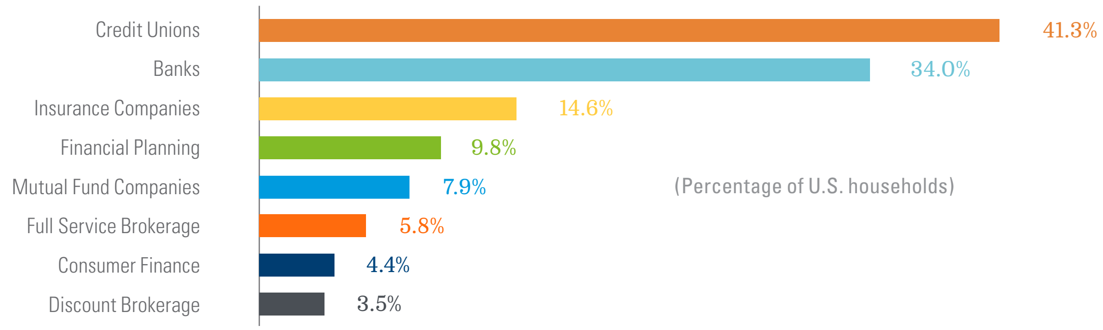


Fig. 20: Institutions Viewed with a Great Deal of Trust



SUMMARY

The preceding analysis of fresh consumer data confirms our 2012 assessment of the extraordinary value of an investment client to a bank or credit union.

We confirmed that financial institutions have achieved better penetration of their client base with financial services than generally believed—13% of U.S. households own an investment purchased at their primary depository institution—and that these investment clients are more upscale than banks and credit unions are given credit for.

Indeed, the households that have invested where they bank are among the most coveted customers or members. Compared to households without an investment relationship, they:

- Have 38% greater checking account balances
- Have 140% larger savings deposits
- Are much more likely to use every kind of credit product
- Are much more likely to own an asset management or advisory account, and three times more likely to have purchased that account where they bank

While financial institution penetration of investment services is relatively wide, it is not very deep. Most of the households that purchased an investment where they bank have purchased just one investment, a legacy of the original transaction culture in financial institutions. While banks and credit unions have under-penetrated their opportunity in investment services, they have a substantial opportunity to do better. They are still the most trusted financial services providers, by far, but financial institutions have fallen short on leveraging that trust.

That is due in part to the focus within banks and credit unions on deepening the banking relationship with customers or members, in the belief that adding additional services will increase the likelihood that the household will not leave the institution. But our research has discovered that the stickiness of banking products exists largely in the extremes, impacting only those households with very many or very few services. For many households, selling them an additional banking product actually diminishes client loyalty. On the other hand, establishing an investment relationship with a customer or member results in a dramatic increase in client loyalty.

These findings have profound implications for how banks and credit unions implement their strategy of deepening client relationships. Not only does establishing an investment relationship increase the stickiness of customers or members, it also neutralizes the negative impact of adding an additional banking service for some clients.

Financial institutions have clearly underinvested in investment services. Those resource allocation decisions have been rationalized by the low ROI on investments in their brokerage units, compared to the ROI from deposits and loans. But establishing an investment relationship with a customer or member may be the most cost-effective way of increasing their stickiness, and making the banking services more profitable.

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Kenneth Kehrer, PHD

Dr. Kehrer, a Principal of Kehrer Bielan Research & Consulting, has been studying the transformation of banks and credit unions to financial services stores since the early 1980s. His research has influenced the metrics that a generation of industry practitioners now uses to assess their businesses and assimilate best industry practices.

Dr. Kehrer has also consulted for scores of banks and credit unions and more than 100 product and service providers—insurers, investment companies, securities firms, technology providers, management consultants, and marketing organizations—on the development of strategies for distribution through financial institutions. In 2004 he received the Lifetime Achievement Award from the Bank Insurance and Securities Association for his contribution to the industry. He earned a PhD in economics from Yale University.

Tim Kehrer

Tim is a Senior Research Analyst who contributes his extensive experience in the interpretation of survey data to KBR&C's robust research program. He was formerly a political operative who served on three winning campaigns for the U.S. Senate, most recently managing the largest research department of any Senate campaign in the country. Prior to that he worked for the independent expenditure arm of a national political party committee, where he studied public opinion surveys and focus group research from across the country as part of the production and deployment of television and radio advertisements.

At KBR&C, he directs the annual benchmarking surveys of investment services in credit unions and bank broker dealers, and the annual TPM Survey. He is co-author of *The Opportunity for Credit Unions in Investment and Life Insurance Services*.

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