Bank Investment Consultant

Death of the Salesmen: Ending the Banking-Advisory Culture Clash

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The world of personal finance is undergoing a revolution. It may not be as dramatic as the marches through New York or protests overseas. But for many — advisors, in particular — it is no less important or far-reaching.

What is happening is a type of civil war between the traditional retail service people in the bank branches and the investment advisors. This is resulting in a transformation of the relationship between these groups and ultimately with the end customer.

This transformation, as strategy consultant Stuart Levine highlights, is being driven by two related developments: advancements in technology and the concept of "customer in control." Indeed, clients have unprecedented access to information and are much more knowledgeable about investments, says Levine, chairman and CEO of Stuart Levine & Associates. He and others cautioned banks not to succumb to the common idea that their customers are "sticky." They are more likely to take their business elsewhere these days than in the past if they're not getting the services they want from their banks.

All of this is, in turn, is driving a shift in expectations with financial institutions and their staff.

Many organizations are keeping up with this changing reality by implementing new strategies and changing the way staff at all levels interact with one another and the client.

Any strategic discussion, according to Levine, starts with a deep understanding of the customers and their needs. "You have to build out a culture in your bank that is totally focused on the customer," Levine says.

But for bank advisors, there are internal challenges that must first be met. Long viewed by retail branch staff as "just a salesman," they are seeking to enhance that status. The goal is to be viewed as a trusted partner rather than a salesman interested in pushing investments and disinterested in long-term customer service.

That image may be wildly unfair, but it has shaped the perception, and therefore, the reality that advisors face. Organizations must find a way past it.

THE FUNDAMENTALS

The root of the problem has been a fundamental difference in culture between retail banking staff and investment advisors. This traditional "sales/service" culture clash is the biggest hurdle to success for institutions and individual advisors looking to grow business.

Sophie Schmitt, senior analyst in the wealth management division at Aite Group, explains that bankers tend to be very service focused. "They are typically salaried employees and they do not come with a sales mindset. They get paid mostly for generating client satisfaction," she says.

When banks hire, they typically look for a service-oriented mindset, she adds. The investment side of the house, however, tends to be more aggressive because that's how they get paid.

Moreover, the models that have required bankers and advisors to work together as part of a team have faced challenges (and often don't work) because you have the more aggressive advisor wanting to be in charge and the less aggressive banker not showing as much initiative in finding clients and trying to up-sell, she says.

But many experts agree that institutions are seeing the old attitudes beginning to change on the part of advisors and retail staff alike. There are a number of reasons, but overall, it's the realization that success in one area is dependent on success in the other.

Clients are more informed, making relationships and customer service even more important. Many advisors are more dependent on referrals from branch staff and, as individuals look for improved returns after several years of depressed markets, they are becoming more inclined to shift deposits and other traditional banking products. Retail banking has to offer extra services or it will lose clients and once they are gone it is increasingly difficult to get them back.

It may be just the beginning, but the idea of one-for-all and all-for-one is gaining traction in some corners of the industry.

The traditional approach was to offer compensation to branch staff for each customer referral to the advisor. But that approach hasn't been working, partly because, as Schmitt explains, Regulation D controls how much bankers can get paid for referring business to an advisor when they are not licensed to sell investments themselves. Therefore, management cannot fully rely on financial incentives and must be cautious about how the bank side is motivated to refer business over to the investment side.

With that in mind, management needs to develop other structures and strategies to motivate the retail staff to make quality referrals.

The end goal, of course, is to maximize the relationship between the retail and advisory sides of the business.

VALUES PROPOSITION

The first step, according to Levine, is to take stock of your corporate culture. Getting the "right structure starts with a discussion around values because values give people the strength of character to innovate, be more creative and most important, to listen," he says. "For me, that values discussion goes like this: 'These are our core beliefs — this is what we believe in — and parenthetically it has to be something that is focused on the customer,'" Levine says.

It sounds great but what does it really mean? So many times, Levine says he sees financial institutions where internal communications have gotten lost.

People become so focused on selling products that they lose sight of the importance of their colleagues. They need to work to change that, and remain respectful of one another's role in the relationship and the process. To do so, there needs to be communication on a regular basis with the main theme of simplification and ease of the customer accessing product services. "This means not having a divided institution but having some kind of unity," Levine says. "Get those branch people together, have them talk, reinforce the values, reinforce the idea that this is who we are here to service." When done correctly, everyone will begin to experience a better a work life, he adds.

John Bowen, CEO of CEG Worldwide, agrees that internal culture is the key to success for advisors — and the larger organization.

The first thing to do is to admit that the divisions and challenges exist. And you have to acknowledge that you are there to serve the clients first.

"The client doesn't care about the internal divisions, who does what, how much people get paid," he says. "Customers just want consistently good service. For the advisor to deliver that service, the bank personnel have to be viewed as a strategic partnership by the advisors and both sides need to understand the dynamics of the relationship and the benefits for all parties.

Bowen says that everyone should begin by viewing things through the customer's eyes. What are the concerns that the client has? And what do both sides (bank and advisory) need to know about the experience for the client and for each other, he says.

"You should formalize the relationship. There has to be some type of economic glue. It is joint business development and the bank/advisors have to pull in the same direction for bonuses and growth," Bowen says.

Formalizing that relationship is something that many institutions struggle with for various reasons, but at the core of the problem is a lack of understanding of what investment advisors do and how the retail staff fits into the picture.

BUILDING TRUST

Many advisors rush to blame retail staff for not understanding the importance of their function and for their reluctance to refer customers that might be potential advisory clients. But this may be an over simplification. Some experts suggest that the fault lies equally at the feet of the advisor for not understanding the motivations and reservations of branch staff or taking steps to address those issues.

What advisors owe the retail staff, explains Levine, is a good explanation about the concepts and conversations that they wish to have with customers. "They [the retail staff] are smart people and will understand and that will make them more comfortable and more likely to refer clients," Levine says. "It is really all about trust," he continues. "If I am going to refer business to you then I have to know you, understand what you do and trust you as an investment advisor. That is where the advisor is always well served to make sure he or she connects face-to-face with the retail associates and develops some sort of relationship."

How can the advisor ensure that they have a strong relationship with the retail staff on whom they rely for referrals? Most of them already have some degree of contact since it is the natural instinct of an advisor to network. There is always room for improvement, however, and the contact should not just be about social contact and basic handshaking.

Schmitt agrees the advisors need to work on improving relations: "There are things they can do, but the gap is more on the bank side than it is on the advisor. Beyond talking with branch managers and spending time with staff, advisors could arrange an after-hours event on retirement planning or some other informational session for branch staff."

FAULT LINES

Gary Collier, a program manager at Pinnacle National Bank (with Raymond James as the TPM), takes a harsher view with advisors. If their internal relationships at the bank aren't sound, it's their fault, he says. "In cases where retail staff are reluctant to refer deposit or mortgage clients to the advisory side for any reason, I think that's a sign that the company has a personnel problem among the advisory team. The quality might not be there if the trust is not there," Collier says.

And advisors based outside the bank branch don't get much more slack. After all, they spend much of their time building relationships around what Collier calls *centers of excellence*. "It is no different if you work in-branch," he notes. "It is part of your job to build internal centers of excellence. You do that by explaining what you do and telling people about your brand…. The advisor has to be a true partner with the bankers, boosting their knowledge, soothing concerns, highlighting opportunities and so on. If there is a reluctance on behalf of the retail or commercial folks to refer business, then the advisor has not done his job properly. If so, I don't blame people for being hesitant. No one wants to work with a salesman."

The concept of creating internal peer education networks is something that resonates with a number of experts, including both Bowen and Levine. In fact, it is something that should go beyond the personal activities of the individual advisor to the level of senior management. Levine says that regular meetings between retail staff, advisors and management should be enshrined in the structure of the company. "There should be a weekly staff meeting of 30 minutes or less — they should not be four-hour conversations — during which they talk about some benefits of investment products and some benefits of retail bank products. And they should be what I call 'cut to the chase' meetings. They have to be direct and not a waste of time," says Levine.

The part that is most often overlooked is the focus on the benefit of retail products. There is a tendency among advisors to disregard the banking operations and view it solely as a source of referrals rather than a real resource.

Advisors need to view the bank as an asset and understand that those products have value too. Many advisors would rather be doing things on their own but that runs counter to the objectives of the parent organization that wants the advisor in place to facilitate cross-selling and boost overall profitability.

Advisors should view being attached to a bank as an advantage. They have access to a significant pool of potential clients, a large network of retail staff to act as a marketing and referral source, and hopefully they benefit from a trusted brand name.

The fact is, though, a lot of bank advisors do not see it that way.

To be sure, that feeling cuts both ways. Henry Montag, principal at Financial Forums, feels that "the individual advisor working in the bank environment is not at all assured that the person being referred to him or her is in fact a viable prospect, let alone an appropriate customer for a particular investment product."

STAFF TRAINING

Branch staff usually cannot accurately identify which of its depositors are good candidates for advisory services or investment services as they are usually not sufficiently trained to take the time to interview and take proper data to accurately assess a customer's goals, needs, risk tolerance and diversification of their other existing assets.

The staff is often asked to make referral decisions on weak criteria like whether or not an individual has a maturing CD or a large amount of cash in a deposit account.

It is one thing for a bank rep to suggest that they open a checking or savings account, or take advantage of other banking or credit services, says Montag. "But when they are motivated by bonus points or other types of referral quotas their judgment should not be relied upon and it behooves the advisory rep to judge for him or herself whether the referral is in fact a suitable candidate."

The practice of paying retail staff for referrals is a long-standing one, but perhaps it is not the best strategy. The payments are designed to motivate tellers and other branch staff to make referrals, but in many cases the payments are so low that they do not work. It can be viewed as a risk-return problem. Retail staff are concerned about the risk, stress or extra work of referring a customer with whom they have a good relationship to the advisory side.

Indeed, they are concerned that if the customer loses money or has a negative experience with the advisor, that will reflect negatively on them. And a check for $20 or $25 is unlikely to provide sufficient motivation to overcome that concern. In fact, it can encourage the types of erroneous referrals that Montag warns about because the retail rep feels pressure from management to fill quotas or boost income.

Some institutions are looking at different structures. Schmitt points to BB&T Bank's model. "They have implemented a system where a specialist employee is placed between the advisor and the banker as the client contact person," she says.

That agent is paid based on total balances across all financial products, including deposits, loans, mortgages and investment tools so they are not just paid on investment products, Schmitt says. This model is designed to make sure the client gets what he or she needs and there is not an unbalanced focus on either side of the business.

"Maybe if you can pay advisors more holistically there will be a greater incentive to have them partner more effectively with all parts of the organization, including the retail area and private banking," says Schmitt.

In some ways this model is an attempt to shift the "ownership" of the client relationship. It is a strong view by either side that they "own" the relationship that leads to conflict in many cases.

Collier explains that Pinnacle takes a different view and has had some success with its approach.

"We look at things differently than some other banks because of the way we view who owns the relationship with the client," he explains. "Many banks see customers as being the bank's clients or the investment arm's clients. Pinnacle sees the individual advisor or banker as the owner of the relationship and it is up to that person to take care of the client in the best way possible."

Pinnacle believes that such a structure creates an incentive for that employee to ensure that the client is getting the right combination of services, Collier said. "The clients are not forced into a box like they are at some banks," he said. "For example, some places say 'whoever has $500,000 goes into this box. If you have a million you go into this box' and so on. At Pinnacle, if I have a $10 million client and I am retail, then I take care of it. It doesn't get passed off to private banking. I might also have clients with $500,000. I don't filter them back through the bank to someone who thinks they work with the high-end clients."

Ultimately what the organization is looking to do is create greater revenue from existing clients. This has seen many banks lower thresholds for customers to access investing services.

Private banking, for example, used to be the domain of those with $1 million or more in assets. Many banks have now lowered that mark or introduced new tiers. These programs are sometimes called "pathways to affluence."

Chase, for example, has a new private client program. Bank of America has the Platinum Privileges program. And most other banks have similar programs designed to bring more people into the advisory services fold.

NOW TRENDING

For other strategies, some banks are employing more licensed bankers, those employees who are Series 6 qualified but not a full investment advisor. They can talk in more detail about investments with a customer and assess needs more accurately, but then must pass them over to the advisory side for the actual planning work. Union Bank, Key Bank and Wells Fargo are three banks that are doing this and enjoying some success with the model. "They have a lot of Series 6 bankers on site in the branches," says Schmitt.

Bank of America takes a slightly different approach and is very focused on what are called financial solutions advisors. These staff members are salaried but also Series 7 qualified, thus making them able to provide a full range of investment advice. "You are starting to see more of them in branches although they are heavily concentrated in affluent neighborhoods, for obvious reasons," says Schmitt.

OTHER MODELS

Another approach is to provide more access to services for the mass-affluent client without increasing advisory contact.

PNC, for example, has done a lot of work enhancing its brokerage platform and has put considerable resources in its online self-directed platforms for mass-affluent clients.

Innovation in the space is important, but ultimately the aim is to improve the level of understanding and trust between the banking and advisory parts of the business. Institutions should look at formalizing programs that include regular educational sessions where investment strategy and services are addressed — the advisors should be personally present to take questions and act as the face of the internal program.

Compensation models should be addressed and all staff should consider the needs of the client beyond the simple needs of the particular service they provide. It goes beyond just the advisor/retail relationship, explains Levine. "What you see at street level is a total reflection of the management structure of the institution. I believe that 100 percent. If people are fighting tribal wars further up the management chain then those will also play out lower down. People generally know how organizations are meeting and working together. That is why including people in strategic discussion and values is important. People act out in the branch what they are seeing and feeling above them," he said.

That is why, Levine says, he is a major proponent of strong internal communications. "What I tell upper management when I advise them on this issue is 'when you are starting to get bored about telling the story and sending your message it is at that point that you are just beginning to penetrate the core of your workforce.'"