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Market research and private banking

Susan Sabey of Lawrence Somerset Ltd disputes the view that market research doesn't have a role in private banking

ATTEMPTS TO apply mass market business principles to the private banking industry have rightly always met with a degree of resistance and practically every newcomer or change manager recruited from outside the sector has a fund of 'war stories', to prove the point. Private banking, it is often argued, is quite different from practically any other business and modern management techniques can undermine the culture and destroy the personalised service and relationships on which it is founded. According to the chairman of one leading private bank, 'you have to be born a private banker really to be able to do it successfully'.

There is a substantial element of truth in all of this, as well as an element of defensiveness and perhaps just a tiny measure of 'heads in the sand'! It still comes as a surprise, however, to learn from the recent survey by the Consulting Group (see PBI 122) that only 20 percent of private banks use such a standard business tool as

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regular client research. The other 80 percent apparently consider such research either unnecessary or impractical on the grounds that:

- ◆ Private bankers have such close relationships with their clients that they receive continuous feedback and are well briefed on changing client needs.
- ◆ Private banking clients are too important to waste their time on market researchers, their financial affairs are highly confidential and they are too geographically well spread for an in depth research exercise to be viable.
- ◆ Those who have experimented with typical client research questionnaires have found them far too superficial and close to useless as a tool of business management.
- ◆ There are few, if any, market researchers with the experience and skills to conduct in depth interviews with wealthy individuals on such a complex and sensitive subject as the management of their money.

On the other hand, the private banks have to reconcile this stance against some of the other views expressed in the Consulting Group survey and elsewhere.

Firstly it is generally acknowledged that client demands are changing rapidly as a result of social trends and the spread of wealth to social groups who have never had it before. Younger affluent people, whether inheritors or first generation wealth creators, have levels of sophistication and attitudes to the nature and tone of the service which show a marked change from older generations. Is it realistic to believe, despite the well-documented fate of so many other industries which have failed to respond appropriately to radical change, that private banks can successfully plan their futures on the basis of unstructured client feedback and 'gut feeling'?

Secondly, there is widespread concern among chief executives that they have great difficulty in finding relationship managers of the quality and sophistication to meet the needs of this new generation of clients. Frankly, if they lack the skills to meet these needs, how come they have the skills to identify what the needs are, let alone the

incentive to report their own weaknesses to senior management. It is well known that most clients are far too polite to confront individuals with their own deficiencies and very few people are really inclined to bare their souls to their bank manager!

The winning institutions in most markets are those who really understand the changing nature of the customer and those who keep this knowledge in mind as a guiding light, when developing their business. Nowhere is this truer than in a sector where personal relationships are so crucial and where the perceived value is built on so many intangible factors.

The understanding needed is relatively complex, taking in not only social and demographic patterns and the changing distribution of wealth among social groups and their networks, but also shifts in attitudes towards money, suppliers, competitors, professional relationships, service quality, charges, brands, aspirations, behavioural patterns and a host of other issues. However, given the secrecy attached to the private banking sector, there is, by comparison with other sectors, an exceptional lack of meaningful published information on which strategic decisions can be based.

Good research can act as the 'strategic nose cone' for a business and it can greatly improve the outcome of many of the expensive decisions now being taken by private banks and other financial institutions, and as a 'call to action' for those institutions which are resisting the need for change.

One of the most remarkable contradictions of the private

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banking sector is that despite apparently intense competition, there appear to be large numbers of potential clients who have great difficulty in finding a supplier to meet their financial management requirements. Good research can provide honest, insightful answers about the actual behaviour of clients and staff and so prevent the all too frequent mismatch between the service proposition and the actual client need.

The proviso is that the research process must be appropriate to these markets. Bad research is worse than none at all and this probably accounts for the attitude demonstrated in The Consulting Group survey. Bad research can convince clients that the bank is out of touch, make them feel a name turned into a number and set up fears over confidentiality. From the bank's point of view, it can be very misleading - e.g. customers appear to be 'very pleased', without explaining why most of their assets are managed elsewhere.

Commoditised market research techniques, such as long, boring questionnaires, are the most obvious cause of these failures. So, however, are 'qualitative research' exercises involving a relatively small number of 'in depth interviews', where all too frequently, the interviewer does not have sufficient insight into the financial affairs of wealthy private clients to promote a meaningful dialogue. Some research firms get round this problem by training senior executives of the bank to conduct these interviews themselves, but only a limited number of executives have the appropriate skills and the advantages of objectivity are clearly lost -

most clients are far less forthcoming in their criticism of the bank to one of its own directors than they are to a skilled external researcher.

Experience shows that to be successful with any affluent group, particularly the very rich, research needs to be:

- ◆ Set up initially so as to make quite clear what the bank's objectives are;
- ◆ 'Qualitative', so that interviews are held in the form of a conversation which gently guides respondents through the topics of interest, without them being obviously aware of this;
- ◆ 'Stimulating', in that the client is faced with some ideas and angles which he may not have previously considered, which provoke a deeper thought process and may give clues to potential changes in behaviour and perceptions (which has the added benefit of making the interview a rewarding and enjoyable experience for both parties);
- ◆ A 'dialogue of equals' - i.e. the research interviewers need to be high calibre people who have sufficient experience both in research techniques and in financial markets that they can instantly understand the implications of what is being said and can engage even the most high powered individual in a mutually satisfying discussion;
- ◆ 'Incentivised', where necessary, particularly in dealing with very high net worth individuals, where a contribution to charity, for instance can have the desired effect. (Incentives should not generally be necessary for existing clients, unless the relationship is weak in the first place. A high response rate, conversely, is a sign of extremely strong relationships).

- ◆ 'Anonymous and totally confidential', which is, of course particularly important to offshore clients, where the approach needs to be planned most carefully, if a reasonably representative sample is to be obtained - clearly, the response will be lowest among those clients to whom secrecy is the paramount requirement of their bank, but as this is the lowest growth sector of the private banking market, such an imbalance should not undermine the overall value of the findings.

Of all the above, it is the calibre of the interviewers which is most critical and most private banking clients will not be willing to talk freely if approached on a standardised basis or by telephone. If quantified data is required, it should be added at the end of the interview.

Given these conditions, research will not only be informative, but will often act as excellent PR for the bank. Frequently clients, far from being hostile, are delighted to have someone listen deeply to their views, especially if they have any concerns. They feel it is important to have a voice in changes to 'their bank'.

The qualitative findings that result, even if not based on a large sample, can often be deeply revealing.

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