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Wealthy, young, and ambitious

How banks can profitably serve the rising mass affluent

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Contacts

Chicago

Ashish Jain
Partner
+1-312-578-4753
ashish.jain
@strategyand.pwc.com

London

Alan Gemes
Senior Partner
+44-20-7393-3290
alan.gemes
@strategyand.pwc.com

Victor Koss
Partner
+44-20-7393-3738
victor.koss
@strategyand.pwc.com

Jorge Camarate
Principal
+44-20-7393-3461
jorge.camarate
@strategyand.pwc.com

Melbourne

Suzanne Lyman
Principal
+61-39-221-1910
suzanne.lyman
@strategyand.pwc.com

Mumbai

Jai Sinha
Partner
+91-22-6128-1102
jai.sinha
@strategyand.pwc.com

São Paulo

Ivan de Souza
Senior Partner
+55-11-5501-6368
ivan.de.souza
@strategyand.pwc.com

Shanghai

Andrew Cainey
Senior Executive Advisor
+86-21-2327-9800
andrew.cainey
@strategyand.pwc.com

Sydney

Peter Burns
Partner
+61-2-9321-1974
peter.burns
@strategyand.pwc.com

Tokyo

Vanessa Wallace
Senior Partner
+81-3-6757-8600
vanessa.wallace
@strategyand.pwc.com

Zurich

Carlos Ammann
Partner
+41-43-268-2144
carlos.ammann
@strategyand.pwc.com

Andreas Lenzhofer
Partner
+41-43-268-2156
andreas.lenzhofer
@strategyand.pwc.com

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About the authors

Paul Hyde was formerly a senior partner with Booz & Company.

Ashish Jain is a partner with Strategy& based in Chicago. A member of the firm’s financial-services practice, he focuses on retail banking and the credit card industry. He specializes in operating model transformation and customer experience improvement for financial-services organizations.

Suzanne Lyman is a principal with Strategy& based in Melbourne. A member of the financial-services practice, she has experience in retail banking as well as functional expertise in operating model transformation, organizational design, and sales effectiveness.

Also contributing to this report was Strategy& research manager Kristen Esfahanian.

Executive summary

The desire for growth is leading bankers to renew their focus on capturing the mass affluent population. In the United States, these are the people with liquid investable assets ranging from US$250,000 to $1 million, representing more than $7.5 trillion in assets.[1] But for most banks, making inroads with the mass affluent population has proven difficult. The reality is that while mass affluent clients tend to use retail banks for transaction accounts and CDs, they go to brokerage firms to manage their investable assets. Typical penetration of retail bank wealth management services among mass affluent clients, according to Strategy& analysis, averages a paltry 5 to 7 percent.*

However, there is a subsegment of the mass affluent where banks might have an underappreciated advantage. A Strategy& study of the mass affluent segment conducted in March 2013 suggests that banks should target the investable assets of the "rising mass affluent" (RMA) — those between 30 and 49 years old. These individuals are more likely to be looking for a closer relationship with one bank — and a wider range of services from that institution — than the older mass affluent, each of whom is typically already involved with several banks and investment firms.

Though every individual bank will have a different approach based on its own business model and organizational structure, a few common capabilities can serve banks well in winning and holding the business of the RMA. These capabilities include building client awareness, creating integrated delivery models, developing online and mobile capabilities, and aligning organizations around horizontal collaboration.

* The definition of affluence is not universal and varies by organization as well as geography. In this report, we have considered affluence to start at US$250,000 of investable assets. However, affluence is a relative term. For instance, affluence is often considered to start at £100,000 (about $150,000) of investable assets in the United Kingdom.

Meet the rising mass affluent

Generation X, the cohort of people between 30 and 49 years old, has always been overshadowed by the next older cohort: the more numerous, more visible baby boomers. But retail banks looking to win more mass affluent (MA) business would be wise to hone their attention on this younger group, otherwise known as the “rising mass affluent” (RMA).

Born between roughly 1964 and 1983, the gen Xers grew up in the prosperous 1980s, and started their careers in the 1990s — a unique time when the advent of the Internet created new wealth-generating opportunities. Some gen Xers profited heavily from the Internet startup wave that boomed in the late 1990s, most felt the impact when the Internet bubble first burst in 2001, and many returned to school during the subsequent recession.[2] These events shaped the personal, professional, and financial lives of gen Xers, giving them a taste of success, a healthy skepticism of quick solutions (along with an appreciation for their unintended consequences), and an intense desire to be ready for tough times. Unbeknownst to gen Xers, all this prepared them for their greatest challenge so far: the economic crisis that began in 2008.

Relative to other generations, gen X may end up weathering the global recession the best. That’s not to say gen Xers have escaped pain, but many members of this cohort have an ingrained resilience from years of struggle, giving them a gritty real-world advantage.[3] For example, most studies assume that people will retire at the age of 65 or earlier. But many gen Xers plan to work well past 65, setting up a revenue cycle and investment horizon much longer than the norm. Gen Xers are younger and less well paid than the baby boomers who preceded them. This, paradoxically, made them less likely to be laid off during the Great Recession. They also have more work experience and education than the next cohort in line, the millennials (those born between 1984 and 2001). With their fatalistic attitude and self-reliance, gen Xers are also more frugal and more likely to save than other cohorts.[4] For all these reasons, this group has the greatest potential of any U.S. cohort for accumulating wealth — and its members are increasingly seeking financial products and services designed to help them. In short, gen Xers should be on every bank’s radar, but few financial-services institutions have found a consistent way to build value for this group and profit accordingly.

Why the mass affluent matter

This is a critical moment in the financial-services industry. Retail banks have been under tremendous profitability pressure over the last five years. The mass market segment, historically a core driver of revenue, is marginally profitable at best. Meanwhile, the high-net-worth (HNW) segment (defined as those with investable assets of US$1 million to $30 million), though profitable, is too small to drive enough growth and revenue. Given this, many banks are pinning their hopes on the mass affluent to provide growth opportunities.

Defined here as those with investable assets of US$250,000 to $1 million, MA households represent nearly 11 percent of all U.S. households — nearly double the population (6.7 percent) of HNW households — and have $7.5 trillion in assets.[5] What's more, MA customers are typically six to 10 times more profitable than mass market customers, and they generate 60 to 70 percent of total customer profits for retail banks even though they make up only 20 to 30 percent of banks' customer base (*see "A New Profile of the Mass Affluent," page 8*).

Mass affluent households represent nearly 11 percent of all U.S households and have $7.5 trillion in assets.

Banks have made some headway with this group in the areas of deposit products and CDs. However, these are low-margin, low-growth transaction and saving relationships. To capture a greater share of wallet, banks need to build a business helping the mass affluent with their investments.

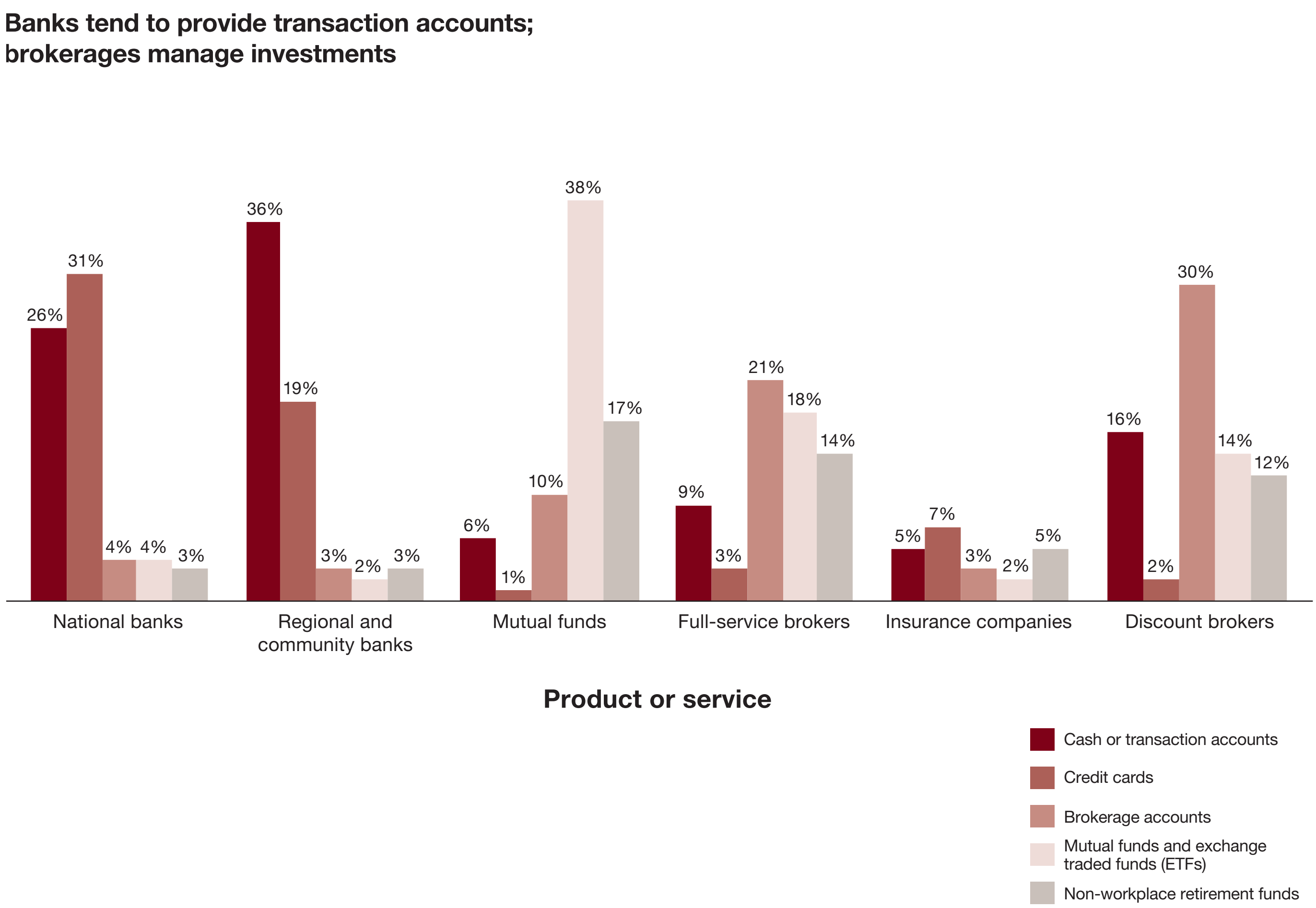
But the competition is fierce. Banks are not the only institutions that recognize the value of this segment. Wealth management firms and broker-dealers also target the mass affluent. In fact, wealth penetration among banks' mass affluent clients averages only 5 to 7 percent. Survey results show that national and regional banks tend to provide the MA cohort primarily with transaction accounts, while full-service brokers, discount brokers, independent brokers, and mutual fund companies manage their investments (*see Exhibit 1, page 7*). If more banks could increase this figure closer to the industry best practice of 15 to 20 percent, they could deepen their wealth relationships, see a lift in deposit balances, increase their loan products among mass affluent clients, and significantly boost revenue.

Some banks have recently tried to target the mass affluent with investment products, with varying levels of success. One of the attractions KeyBank saw in its 2012 acquisition of HSBC retail branches in New York was its mass affluent offering.[6] In March 2013, PNC rolled out an investment and retirement planning center in Mt. Lebanon, Pa. — the first of many meant to serve the mass affluent specifically.[7] Fifth Third has a preferred banking program to try to sway its mass affluent bank customers to bring over their investment portfolios by using advantages such as waived ATM fees and credit card rewards.[8]

Still, banks have a serious perception problem to overcome, which is confounding many of their overtures to the MA. According to results from the Strategy& mass affluent study, the core reason members of this segment look outside their primary banks for their investment needs is that they don't believe the banks are capable of providing the investment products and services their households need. (In this survey of customers, the primary bank was defined as the financial institution where the main checking or savings account for the household is held.) In fact, 44 percent of the mass affluent surveyed did not even consider their primary bank as a potential provider of household investment services. Of those who did consider it, many ultimately did not choose the bank either because they did not feel it had the products or solutions to meet their needs (34 percent) or because they did not see it as a qualified provider of investment products or advice (30 percent).

Exhibit 1

The mass affluent's preferences: Financial-services firms and their offerings



Source: Strategy& study of the mass affluent segment, March 2013

A new profile of the mass affluent

In March 2013, Strategy& surveyed 1,121 mass affluent customers ages 18 and older in the U.S. to examine their financial priorities and providers. With US$250,000 to $1 million in investable assets, most mass affluent households use several financial providers to manage their various financial products — with no real desire to consolidate. Though inertia could explain this cohort's reluctance to consolidate their financial relationships, survey results indicate that their perception of their banks' capabilities could also be to blame.

Some highlights from the mass affluent survey:

- The most important financial priorities of the mass affluent:

  Protecting current assets (82 percent)

  Managing household finances, such as bills (67 percent)

  Saving for retirement (60 percent)

- The top reasons the mass affluent established a relationship with their primary bank (where they have their checking account):

  Branch locations are convenient (59 percent)

  Have been a customer for many years (46 percent)

- The most important attributes the mass affluent value when selecting an investment provider:

  Access to investment products that meet their needs (70 percent)

  Reputation of the financial institution (69 percent)

  Firm's brand/reputation as a provider of investment services (64 percent)

- Of the mass affluent who have a financial advisor, 38 percent were paired with their financial advisor through a recommendation

- The top reasons the mass affluent contact their financial advisor:

  Receive recommendations on investments (55 percent)

  Discuss changes in their personal situation (53 percent)

  Manage securities, such as buying and selling stocks and bonds (50 percent)

- Nearly 40 percent of the mass affluent have an adult dependent (age 18 or older) living in their household; 19 percent of these adult dependents are the parents of the mass affluent

Survey methodology

Data for this survey was collected by Harris Interactive Service Bureau (HISB) on behalf of Strategy&. HISB was responsible for the collection and weighting of the data, and Strategy& was responsible for the survey design, data analysis, and reporting state. Survey respondents were required to be at least 18 years of age, have a personal checking/savings account, be a primary or shared household financial decision maker, and be mass affluent (defined as having between $250,000 and $1 million in investable assets, excluding real estate holdings). Of this sample, 305 represent small business owners, defined as mass affluent business owners who derive 60 percent or more of their personal income from business(es) in which they own a majority stake.

Respondents were distributed across various geographic regions, incomes, ages, and gender groups. The sample was weighted appropriately to represent the broader U.S. population. Propensity score weighting was also used to adjust for respondents' propensity to be online.

Gen X meets the mass affluent

A distinctive group of individuals lie in the overlap between the gen X cohort and the mass affluent segment. They are occupying leadership positions in business and government, and they often have young families. They need to begin preparing for the near- and long-term future, and they know it. At the same time, they have not necessarily built up relationships with specialized investment or insurance companies. This makes them relatively responsive, as a group, to banks that can offer a single source for all their needs. That's probably why, despite the general difficulty that retail banks face in making inroads with members of the mass affluent population, they are fairly well positioned to attract its gen X members, the rising mass affluent. According to results from the Strategy& mass affluent study, the RMA, who make up 26 percent of the mass affluent surveyed, are relatively open to the possibility of their primary bank becoming their investment provider. In the survey, 51 percent of the RMA group said they would consider their primary bank for their household investment needs, while only 37 percent of the older mass affluent said the same.

The rising mass affluent are in a phase of life that makes them particularly attractive to banks. They need some investment guidance, but not intensive support from investment professionals. They are concerned about protecting assets and growing wealth, paying off their primary mortgage, and saving for other goals like education and money to care for elderly parents. This requires complex planning that in turn requires a financial advisor, and members of gen X understand the importance of this. More than half of the RMA respondents say it's important to have access to a dedicated financial advisor to meet their investment needs, yet 59 percent of them do not have a financial advisor, a clear opportunity for banks. Equally important, the RMA are young with plenty of time for their assets to grow. If banks can make inroads with this group today and manage investments for the long term, they can prosper as they help the RMA graduate to higher levels of wealth.

Fifty-one percent of the RMA group said they would consider their primary bank for their household investment needs.

Capturing the RMA's attention

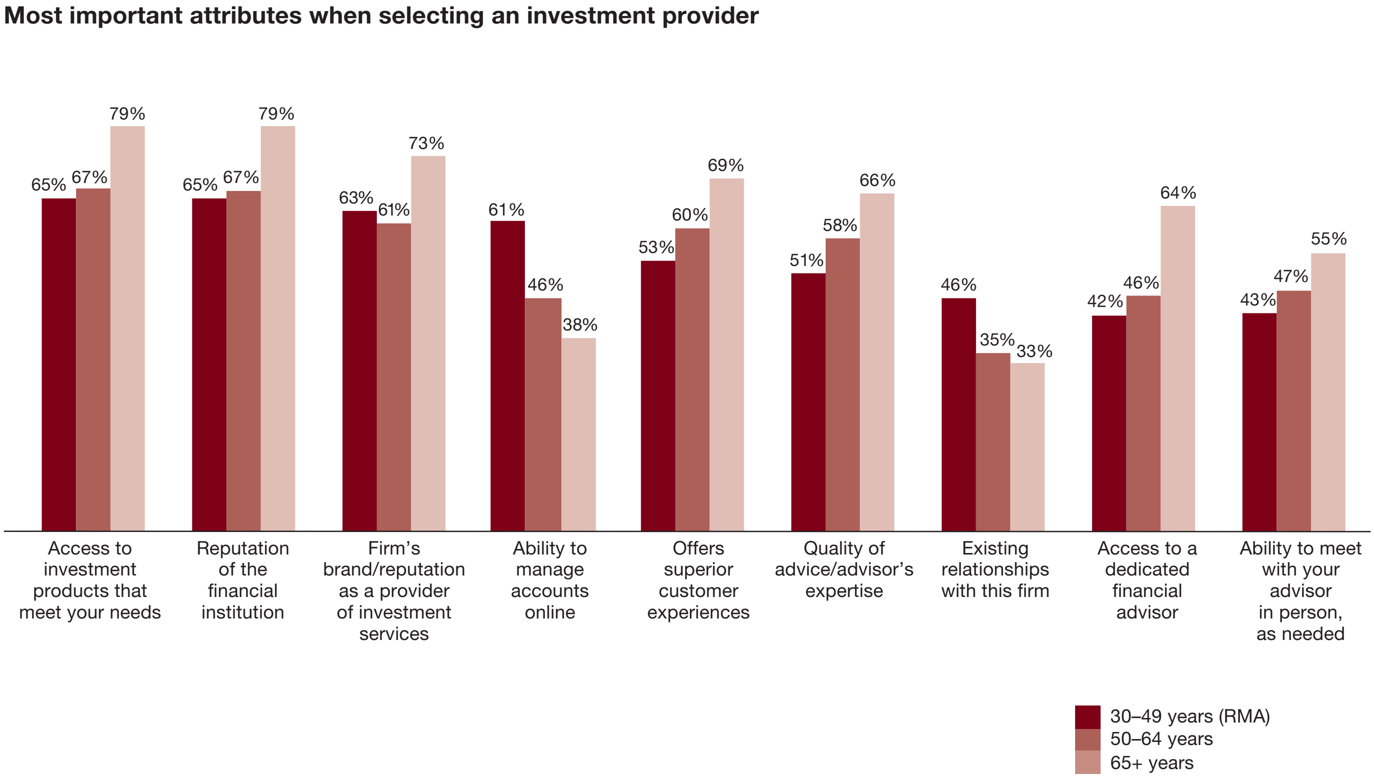
Though each individual bank will have a different approach to targeting the rising mass affluent based on its own business model, strategy, and organizational structure, there are a few common capabilities all banks should have (*see Exhibit 2, next page*).

- ***Distinctive client value proposition and targeting:*** First and foremost, develop your bank's differentiated value proposition and customer experience in a way that targets the RMA cohort's investment needs and preferences, which differ from those of the mass market and HNW segments. Specific elements could include personalized financial plans, product bundling, relationship pricing, and preferred queuing for loan applications that meet RMA-oriented criteria. At the same time, build customer awareness around your bank's ability to meet the financial and investment needs of the RMA. This can be accomplished through distinctive branding, digital marketing, and social media (with the aim of reaching potential customers through their family members and peers).

- ***Integrated delivery:*** Compared with their older mass affluent counterparts, those in the RMA cohort place a higher value on close, comprehensive relationships with their financial-services institutions. To appeal to this characteristic, create a personal banker–financial advisor team model, where ownership of the client is a joint responsibility among team members. Provide relationship pricing and strong lead management capabilities to support these teams. This model can provide customers with financial products that reflect their goals, as well as contribute to a more seamless customer experience. Train personal bankers and financial advisors to conduct integrated banking and financial planning conversations to unearth the needs of these customers. Because the initial financial

Exhibit 2

Banking priorities of the rising mass affluent compared to older cohorts



Note: Responses were based on a ranked scale; answers reflect the top three on a scale of 1 to 10 (1=not at all important, 10=critical). Respondents were asked to "choose all that apply."

Source: Strategy& study of the mass affluent segment, March 2013 relationship with RMA customers is usually transactional (for example, a deposit account or a credit card), personal bankers need to lead the conversation to lending and investment needs skillfully and to introduce specialists in these areas as part of a core team. Financial advisors need training to understand the RMA desire for stability and simplicity, and the patience to build a relationship over time, rather than expecting significant wallet up front. Most financial advisors do not have these skills.

- ***Customer-oriented analytics:*** Financial advisor and personal banker teams need advice and analytic capabilities to support their interactions with the RMA and maintain relevance. Set up systems for collecting insights from the RMA customer's current transactional behavior and warehouse that data within the bank. Use the data to identify, target, and offer the RMA customized products and services that set your bank apart from competitors that have more general, "one-size-fits-all" mass affluent offerings.

- ***Digital offerings:*** Create a digital, integrated wealth management experience using online channels tailored for mobile device access, so RMA customers can remotely interact with their advisor, make real-time portfolio changes, and perform other activities. This is a top priority for 61 percent of the RMA cohort surveyed. Set targets and incentives that encourage bank employees to integrate all channels (branches, websites, and mobile devices) to support the growth of both banking and investment relationships.

A digital, integrated wealth management experience using online channels tailored for mobile device access is a top priority for 61 percent of the RMA cohort surveyed.

Toward organizational alignment

Many banks have struggled with the mass affluent segment because those clients do not neatly fall into the traditional retail, wealth, or business models. Rather, their needs straddle multiple areas of the bank that don't traditionally work together. To break this pattern, three organizational changes are necessary:

1. Incubate mass affluent services within the wealth segment. Give the brokerage team that covers HNW customers responsibility for the rising mass affluent segment — and have it manage the collaboration with retail as well.

2. Create a separate mass affluent organizational structure that cuts across retail, wealth, and business banking, placing within it all responsibility for MA customer experience, delivery, and overall P&L.

3. Nominate an RMA segment lead within the retail operations of your bank. That person should define the RMA customer experience and work with the retail, wealth, and business banking product and channel teams to deliver the products and services that this cohort needs.

The RMA path to growth

Capturing a greater share of the mass affluent business will be an uphill battle for banks, but a good starting point is targeting the rising mass affluent. This is because, according to the Strategy& mass affluent study, these individuals are more open than other mass affluent members to their primary retail bank becoming their investment provider.

Capturing this share should be seen as a major path to growth — and one that can be used to build capabilities that will serve other cohorts as well. In the end, however, the great promise of the rising mass affluent is the ability to build lifetime customer relationships. These individuals, between the ages of 30 and 49, have distinctly different desires and circumstances than their older counterparts. They are the generation with the greatest future wealth potential and strongest desire for financial guidance. Retail banks that design and offer the right products and services to fulfill their needs will win a loyal market that few other retail banks have discovered.

Endnotes

[1] "The Mass Affluent and the Fiscal Cliff," Nielsen, Dec. 19, 2012.

[2] "Back to School," *Economist*, Sept. 4, 2003.

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