BECOMING BETTER TRUSTED ADVISORS

PRELIMINARY REPORT

Initial findings from our Customer Discovery (co)Lab sessions with members to understand needs and pain points from customer and bank perspectives in providing financial coaching to customers. Work has now moved to a live pilot with a fintech partner. Contact JP Nicols to learn about how to get involved: jp@alloylabs.com

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57%

OF AMERICANS DO NOT WORK WITH A FINANCIAL ADVISOR, BUT JUST...

49%

OF RETAIL BANK CUSTOMERS ARE CLASSIFIED AS FINANCIALLY HEALTHY, WHILE ONLY...

42%

OF CUSTOMERS SAY THEY TRUST THEIR BANK TO PROVIDE FINANCIAL ADVICE

In order to capture these opportunities, banks must take measures to earn and strengthen consumers' trust in banks, which has come under pressure from multiple fronts. This is especially true when it comes to more complex products and services. This report explores the opportunities and challenges for banks.

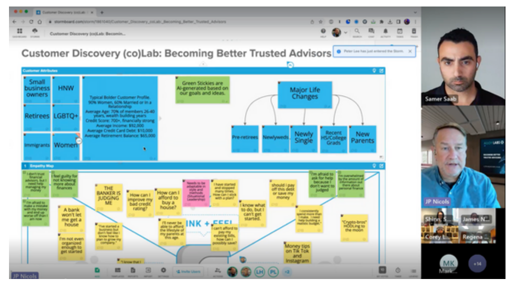
Data points from JD Power 2021 Retail Banking Advice Satisfaction Study https://www.jdpower.com/business/press-releases/2021-us-retail-banking-advice-satisfaction-study

EXECUTIVE SUMMARY

More than 20 bank members joined for a Customer Discovery (co)Lab: Becoming Better Trusted Advisors. We explored pains that customers are trying avoid, gains they are trying to achieve, and specific jobs they need to be done when they engage with an objective financial coach to receive advice.

We also explored each of those dimensions from the banks' perspectives in order to evaluate the challenges and opportunities present for members.

These are the high level preliminary findings so far as the group elected to move forward with a live pilot program.



Bank Perspectives

Potential Gains

- Improved position in the community - differentiation / customer acquisition / community membership
- Strengthened relationships - improved customer retention / aggregate customers data and finances / become the primary provider / better lifetime customer value
- Customer Expansion - New businesses / new financial products

Potential Pains

- Skilling up the organization to provide this kind of support
- Establishing empathy for and experience addressing these kind of needs
- Potential new compliance risks
- Executive alignment for what and why to do this, including ROI

Questions to be Addressed in the pilot

- Which customers do we strive to help?
- Which customer pains/gains do we aim for (first or at all)?
- How might we address our own challenges in serving our customers?
- How might we test a potential offering quickly and efficiently?
- What is the business model and fee generation opportunity?

Customer Perspectives

Potential Gains

- I should probably be saving more of my income
- Spending confidently
- Security and stability
- I am allocating to my debts and savings in a manner that meets my needs and lifestyle
- I dont need to feel bad about these things that make me happy
- I am not wasting opportunity by not investing
- I am ready to start a business
- A house is within reach
- Optimism
- I am building a positive relationship with money
- I am able to prioritize my financial goals and take action towards achieving them
- I have a sense of control over my financial situation
- I feel more confident in making informed financial decisions
- I have a clearer understanding of what financial success means to me

Potential Pains

- Resignation: It's Bad. I don't want to know
- Hopelessness: It's Bad. I know it. I can't do anything about it
- Excusing: I know I'm making bad choices but they make me happy
- Embarrassment: I don't want people to know about my financial issues
- Fear: I already can't get a loan. Now my banker will never approve me
- Feeling overwhelmed and confused by financial jargon and concepts
- Struggling to find the time to focus on financial goals and planning
- Feeling guilty or ashamed about past financial decisions
- Lacking the motivation to make changes or stick to a financial plan
- Feeling unsupported or misunderstood by friends and family regarding financial goals

Jobs to be Done

- I want to be better prepared for retirement
- I want to save for a down payment on a house
- I want to learn how to invest in the stock market
- I want to a budget and stick to it
- I want to reduce my credit card debt

ADDITIONAL DETAILS

Background and Context

We decided to explore the potential for providing financial coaching for two reasons. First, we noticed that many (if not most) financial institutions proclaim themselves to "trusted advisor" to their customers, but few have put any definitions or standards around what that means so it is not any more viable or defensible a way to differentiate from others than other vague and overused terms like "relationships" and "service".

Those are all good and desirable outcomes from consistently providing good customer experiences over time, but how do we know when we're really there? Ultimately, it's the customers who define success in the relationship, and the full customer experience is not just defined by those (increasingly infrequent) direct, personal interactions. A relationship requires an emotional connection, and that can't be forced.

> ***Understand that loyalty is earned, not demanded or bought. The way to build a loving relationship between your brand and your customers is to work hard for it, every day. It is not an annuity that happens once and pays dividends forever. Never take it for granted.***
>
> —2022 US Banking Industry Loyalty Report

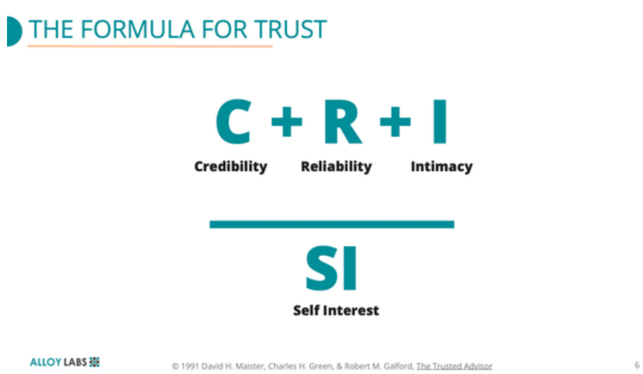
The second reason we decided to explore the potential for providing financial coaching was from conversations we have had in the Concept Lab strategy meetings, and from learning some of the lessons of a financial coaching company we are currently evaluating called Bolder. We thought it was important to conduct our own independent exploration with members in parallel with conducting due diligence on the that or any potential solution partner. Details on the pilot partner can be found beginning on page 8.

WHAT IS A 'TRUSTED ADVISOR'?

Anyone can be an "advisor". Anyone can give advice. For people to actually take that advice seriously, let alone act on it, the key word is to be "trusted". Trust is what earns the right to influence others, and trust is what is at the root of customer satisfaction and loyalty.

That's according to David H. Maister, Charles H. Grenn, and Robert M. Galford, who literally wrote the book on it, *The Trusted Advisor*, first published in 2000.

In it, they propose The Trust Equation, which says that trust equals credibility, plus reliability, plus intimacy; all divided by self-interest.



- Credibility means you know what you're talking about. Subject matter expertise.
- Reliability means that you do what you say you're going to do.
- Intimacy means you deeply understand the needs, goals and fears of your client, even if they are not always explicit.
- Self Interest means just what it says *as perceived by the client*, real or not.

The first three are added, but their sum is *divided* by the real or perceived self-interest, so it can be much more impactful.

Think of the stereotypical used car salesperson— they know every feature and benefit of every car on the lot, they follow-up tirelessly, and they know all about your driving habits, the size of your family, and even the dream car you secretly desire.

If you're being honest, you'd have to score them a 10 on each of those. However, you just can't shake that queasy feeling that it all rings hollow and insincere. At the end of the day, it's really just that fat commission check they really care about, so you'd give score them a 10 on self interest too.

(10+10+10) / 10 = 3 so they are not really much of a trusted advisor at all.

On the other hand, you could work with another salesperson only half as good at the more functional measures, but if you felt they were only slightly self-interested, say 3 out of 10, their overall trust score would be higher (5+5+5) / 3 = 5.

Credibility, reliability, and intimacy all matter. A lot. But even the most experienced advisors can benefit greatly by improving their trust quotient with existing and potential customers.

How Do We Become Better Trusted Advisors?

We set out to ask this question to members through a two-part Customer Discovery (co)Lab; interactive, collaborative sessions to explore the deeper and potentially latent needs of our customers and how we might address them as institutions.

Our hypothesis was that the answer is not to double down on financial advisory practices that only help with a limited scope of our financial needs, come with legal risk, and can only profitably serve a small portion of our customers. Instead, we believe we need to explore financial coaching.

Financial coaching goes beyond beyond the obvious functional level where most financial services companies and products operate, to address the customers' underlying financial needs at a deeper emotional and behavioral level.

As long as humans remain irrational beings, there will be an opportunity to address the emotional elements that drive our financial behaviors. Banks that are willing to dig for deeper levels of understanding and connection will reach new levels of relationships and drive stronger engagement, retention, and customer financial health.

Getting this right could drive the largest shift in the banking operating model since digital banking.

What Does a Trust-Based Relationship Look Like?

During the (co)Lab sessions we started by asking participating members what percentage of customer interactions were *trust-based*. That is, where the client receives "*a safe haven for hard issues*", as defined by Maister, Green, and Galford.

CHARACTERISTICS OF RELATIONSHIP LEVELS

	Focus is On:	Energy Spent on:	Client Receives:	Indicators of Success:
Service-based	Answers, expertise, input	Explaining	Information	Timely, high quality
Needs-based	Business problem	Problem-solving	Solutions	Problems resolved
Relationship-based	Client organization	Providing Insights	Ideas	Repeat Business
Trust-based	Client as individual	Understanding the client	Safe haven for hard issues	Varied (e.g., creative pricing)

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© 1991 David H. Maister, Charles H. Green, & Robert M. Galford, The Trusted Advisor

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Of course, no one had a precise measure, but the consensus was no more than 10-20%, and possibly quite a bit lower than that.

Participants estimated a similar number of customer relationships could truly be described as *relationship-based,* defined as those where the customer receives "*ideas*".

The group generally agreed that most interactions with customers would properly be categorized as either *service-based* or *needs-based.*

Not that there's anything wrong with that!

It is neither realistic nor even desirable to expect that every single interaction or every relationship to be characterized as trust-based.

Not unless you design your entire business and staffing model around that and have a very large recurring annual revenues and lifetime customer value (e.g., ultra-high net worth segment, or other specialized business lines).

Even then, sometimes customer just want, and need, the explaining, and problem-solving activities that give them the information and solutions they asked for.

Providing these level of services can also be important steps in earning the right to provide higher-valued insights and advice.

Like the definition of trust itself, the definition of Trusted Advisors, will ultimately be defined by the customers.

The Trust Process

During the (co)Lab we also touched briefly on Maister, Green, and Galford's definition of the Trust Process and the steps required at each level.

The steps of the Trust Process are:

1. **Engage**
2. **Listen**
3. **Frame**
4. **Envision**
5. **Commit**

Given our limited time together, we decided to set these aside for further consideration if and when we progress to later stages. You can see a summary of the actions taken by advisors, what the client feels, and what the advisor gains at each level on the summary chart on the next page.

Lessons Already Learned

We also briefly discussed the lessons learned from Bolder's experience in the market. We did not want to anchor too much on this in the event that members

THE TRUST PROCESS

Trust Process Step	Action Taken	What the Client Feels	What the Advisor Gains
1. Engage	Attention becomes focused	***"It may be worth talking to this person about..."***	Earns the right to tell and hear truths
2. Listen	Ears bigger than mouth; acknowledge and affirm	***"I am being both heard and understood..."***	Earns the right to suggest a problem statement or definition
3. Frame	The root issue is stated clearly and openly	***"Yes, that is exactly the problem here..."***	Coalesces issues to move forward
4. Envision	A vision of an alternate reality is sketched out	***"Could we really accomplish that" That could be a really interesting outcome."***	Concretizes vision; generates clarity of objectives.
5. Commit	Steps are agreed upon; sense of commitment is renewed	***"I agree, I understand what needs to be done. I'm with you, let's do it."***	Allows problem-resolution to begin

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may choose to go in a different direction. This is not an endorsement or recommendation for Bolder as a specific solution, but we thought it was important to include some actual market data from existing customers, which follows below.

INSIGHTS FROM CUSTOMERS

Partner Overview

Our pilot partner is the only financial coaching platform that addresses the emotional side of money for the 200m Americans disqualified to work with financial advisors.

They combine tech with real human accountability to help consumers achieve their financial goals. Financial advisors for the affluent, money coaching for the masses.

Consumer Impact/Value

Emotional Cost of Money: Money is actually emotional, and often the biggest source of stress and anxiety for consumers. 77% of Americans say they're stressed due to money worries.

Access Doesn't Equal Usage: Money is in the category of things we're expected to be experts at, but no one teaches us about.

Consumers have access to financial products, and tools from providers, but their use is a fraction of what it could be.

Limits of Traditional Advisors: Traditional advisors have AUM (Assets under Management) requirements which disqualify 65% of Americans. They're also often focused on retirement alone, but consumers have a range of financial concerns on an on-going basis.

The partner works alongside financial advisors and other providers to deliver financial coaching that combines tech with real human accountability, and addresses both the practical and emotional side of money to help consumers expand, and make full use of their financial products to achieve their financial goals.

Those goals include financial decisions that don't often appear within the bank's scope, like changing jobs, moving cities, getting out of bad relationships, getting out of debt, taking control of their finances, starting their own business.

Financial Impact

- **Total Goal Targets.** The partner reports tracking progress for 160 clients who have 884 goals with a total target of $16.8m including $1.9m of debt targets.
- **Progress**. Clients have achieved progress saving $6.6m towards those goals
- Clients increased their income by average of $16k
- Clients open 3 new accounts on average.
- Debt. Clients are targeting to pay off $1.9m in debt goals and they've paid off $79k in debt in the last 3 months.

Typical Customer Goals

- Home Ownership or Repairs: Target $1.26m, with $292k saved
- Emergency Savings or Rainy Day Fund: Target: $2.1m, with $783k saved
- Travel Funds: Target $640k, with $394k saved.

Typical Customer Profile

- 90% Women, 60% Married or In a Relationship
- Average Age: 70% between 26-40 years, wealth building years.
- Credit Score: 700+, financially strong
- Average Income: $92,000
- Average Credit Card Debt: $10,000
- Average Retirement Balance: $65,000

Sharpening Insights with Articial Intelligence

We also utilized a number of Artificial Intelligence tools to help us understand and frame some of the key issues, as listed below. We expect that AI may also be a powerful tool for Trusted Advisors to leverage on behalf of their customers.

Why Might Customers Engage a Bank for Financial Coaching?

- Customers who have experienced a significant life event such as a divorce or job loss may need financial coaching to get back on track.
- Financial coaching can help customers who are struggling to manage debt and improve their credit score.
- Customers who are approaching retirement may benefit from financial coaching to ensure they are financially prepared for this next phase of life.
- Financial coaching can help customers who are self-employed or have irregular income streams to better manage their finances.
- Customers who have experienced a windfall such as an inheritance or bonus may benefit from financial coaching to ensure they make the most of this opportunity.

What is the opportunity or problem statement for a bank to offer independent financial coaching to its customers?

- Providing financial coaching for customers can help banks build stronger relationships with their customers.
- Offering financial coaching services can help banks differentiate themselves from their competitors and attract new customers.
- Financial coaching can help banks reduce customer churn and increase customer loyalty over time.
- By offering financial coaching services, banks can help customers achieve their financial goals and improve their financial health.
- Financial coaching can help banks better understand their customers' financial needs and preferences, which can inform product development and marketing efforts.
- Offering financial coaching services can help banks attract and retain younger customers who are just starting to build their wealth.
- Financial coaching can help banks reduce the number of delinquent loans and default rates by improving financial literacy and decision-making among their customers.

- Banks can partner with local financial coaching organizations to offer their services to customers, increasing access to financial coaching for those who may not have otherwise sought it out.
- Offering financial coaching services can help banks differentiate themselves in a crowded market and increase customer loyalty over time.
- By offering financial coaching services, banks can help customers navigate complex financial situations, such as divorce or inheritance, which can be overwhelming and stressful.

Why should we focus on this opportunity? What are the gains for the bank and for the customer?

- Financial coaching can lead to improved mental health and reduced stress
- Financial coaching can help customers achieve their life goals and dreams
- Financial coaching can lead to increased financial literacy
- Financial coaching can help customers navigate unexpected financial challenges
- Financial coaching can lead to improved overall well-being and quality of life
- Customers who receive financial coaching are more likely to stay with the bank and refer their friends and family.
- Offering financial coaching services can help banks build their brand and reputation as a trusted financial partner.
- Financial coaching can help customers achieve their financial goals faster, which can lead to increased customer satisfaction.
- Customers who receive financial coaching may be more likely to use other bank products and services, such as loans or credit cards.
- Financial coaching can help banks reduce their risk of lending to customers who are not financially stable or have a high risk of default.

How Might We Solve This? What might a solution look like?

- Use AI and machine learning algorithms to analyze customer financial data and provide personalized financial coaching recommendations.
- Offer financial coaching as a subscription service, with regular check-ins and ongoing support.
- Develop a mobile app that provides customers with personalized financial coaching and education on-the-go.
- Partner with employers to offer financial coaching as part of their employee wellness programs.
- Create a referral program to incentivize current customers to refer friends and family to financial coaching services.
- Create an online platform that connects customers with financial coaches based on their unique financial situations and goals.

- Develop a gamified financial coaching app that rewards customers for achieving their financial goals.
- Offer financial coaching services as a benefit to employees at partnering companies to help improve their financial wellness.
- Utilize virtual reality technology to create immersive financial coaching experiences that teach customers financial concepts.
- Develop a chatbot that provides customers with personalized financial coaching advice and resources.
- Create a program for young adults to learn financial planning before entering college
- Develop a chatbot that can provide personalized financial advice to customers
- Offer free financial coaching sessions as part of employee benefits packages
- Create a mobile app that helps customers track their spending and provides personalized budgeting tips
- Develop a financial literacy curriculum for high school students to prepare them for real-world financial decisions.
- Develop a financial coaching certification program for professionals
- Create a financial coaching app that incorporates gamification to engage users
- Offer financial coaching services specifically for women and/or minorities
- Develop partnerships with local schools and universities to offer financial coaching to students
- Conduct market research to identify specific customer segments that would benefit from financial coaching

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