Unearthing hidden gems

An extract from Perspective: The understanding your customers issue
Essential insights into the issues facing your industry today
Peter Welch, Intermediary Director, Equifax Touchstone, talks to Perspective about how important it is for Independent Financial Advisers to cleanse their client bank data and discover unknown treasures that are simply lying in wait.

The advent of the Retail Distribution Review (RDR) has created much discussion around client segmentation. Indeed, in the last year and a half, most firms have undertaken some form of analysis of their client bank in order to ensure they’re delivering the most relevant service and fee model to their active clients.

Any segmentation model must put the needs of the customer at its heart. But can any firm truly quantify how much revenue or profit is left untapped from clients who would both benefit from the advisory services on offer and can afford them?

If you think of an Independent Financial Adviser (IFA) practice as a family household, over its lifespan it would not be unusual to move property several times; children arrive, grow up and leave home, or there may be separation, divorce or bereavement.

Gathering clutter
As these life stages occur, a home will inevitably gather numerous possessions, many of which will become unwanted, unfashionable, unloved and sometimes unusable. Some are retained for sentimental reasons, while others are kept because people believe they may become useful in the future.

Of course, other items are simply in the home because the householder can’t be bothered to get rid of them.

There are very few attics, garages or cellars that don’t hold a collection of old and unused household items.

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Now, in a domestic setting, there aren’t many consequences of keeping all this ‘stuff’ – apart from the space it takes up. But if we see the household as a business, and the possessions as clients, then there are financial consequences or costs for just ‘warehousing’ what are essentially assets of the business. The trouble is, those costs aren’t explicit. They don’t appear in the management accounts of a business as ‘opportunity costs’ and, if no action is taken, revenue can be lost.

In addition, an IFA practice will evolve over time: business premises may change, advisers, partners and directors come and go, mergers or acquisitions will occur and, because of numerous regulatory and market changes over the years, the core proposition will develop too.

Inevitably, any segmentation of customers will also have changed over time, with customers classed as ‘A-grade’ fifteen years ago now possibly categorised as ‘unadvised’. However, for those firms that have not been totally rigorous with their client management over the years, there is still likely to be hidden value.

Dusting off the cobwebs
In the run-up to the RDR, segmentation has generally been carried out to establish the service proposition and fee level offered. Using only the data available to the firm, this will probably be based on historical commission and fees earned, together with assets under management. It is also likely to be affected by a subjective view of the client relationship: how much am I likely to earn from this client and do I like them?

This analysis is likely to leave a group of customers who are effectively not profitable to service, even though at some point they probably were. They have done business in the past but, for whatever reason, they are not active now.

Segmentation gives a means of executing a strategy to win back value from these ‘hidden gems’.

So what to do with this group? If they aren’t receiving ongoing service, it will be difficult to spot their changing circumstances to establish the point at which they become profitable to service again.

But all is not lost. The technology and data insights now available give firms the ability to profile and cleanse their client data in a more objective way. This insight enables firms to more easily identify the ‘hidden gems’ in their client bank that can generate additional value.
Unearthing hidden gems
If a firm has already identified its profitable clients, I would suggest a simple exercise of profiling them using an external wealth-scoring model. This provides an objective reference or 'label' that can be used to identify other non-active individuals within the client bank that, in all respects, look similar to the most profitable clients.

In the post-RDR world, the firms that will thrive are those that adopt best practices used across a range of industries and adapt them to suit their own business needs.

At the same time, it is very simple to cleanse data to understand which clients are now deceased or have moved, as well as append new addresses for those who have moved.

I can cite a real example that proves the value of this approach: a client who invested in a small PEP in 1996 with a current value of £9000. The IFA was still receiving trail but had not been in contact with the client, who had since moved twice and divorced. Yet this client had investable assets today of more than £250,000 sitting on an unadvised Investment Platform.

A quick and simple profile and cleanse of this IFA’s data would have identified the client’s current address and someone with a high likelihood of being an ‘early retired wealth’ with an ‘experienced investor’. I’m convinced most IFAs would have little difficulty educating this client as to the benefits of their fully advised service.

The magic of analytics
Firms miss these types of opportunities because, traditionally, the only way to find such clients would be to trace and contact all ‘orphans’. This clearly isn’t cost-effective, as it’s a bit like looking for a needle in a haystack. Using intelligent data cleansing and segmentation means a firm can do the equivalent of holding a large magnet near the haystack and letting the needles come to it.

Returning to the unloved household items analogy, one way to establish their true value would be to check them all on eBay to see what similar pieces have sold for. Thankfully with client data it’s much less time-consuming than that. If a firm can provide an Excel file of the names, addresses and postcodes of their clients, a marketing and data analytics specialist can easily cleanse and enhance that data as well as place a wealth score or wealth indicator against each client record.

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This allows a firm to make a judgement about what contact strategy to adopt for various client segments, ranging from adding contact details to a newsletter mailing list to a personal letter or phone call from the original adviser or another relevant specialist suggesting a review meeting. Sometimes a change of adviser within the same firm can be the key to rekindling a dormant client relationship.

Best practice: better results
In the post-RDR world, the firms that will thrive are those that adopt best practices used across a range of industries and adapt them to suit their own business needs. In my experience, IFAs have only started to scratch the surface as far as managing customer data and segmentation are concerned.

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