

2004–05 MacroMonitor Presentation Topics

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- Revolving Retirement Revisited
- Consumer Disengagement with Financial Services
- Trust of Financial Institutions and Intermediaries
- Cross-Selling Progress Report
- New Life Stages: Child Free, Post Retirement, and Extended Adolescence (Boomerang Kids)
- Understanding the Self-Reliant, the Collaborator, and the Delegator
- Institution Loyalty: Switchers, Stickers, and the Susceptible

Name _____

Telephone _____



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REVOLVING RETIREMENT REVISITED

LIFE STAGES: REVOLVING RETIREMENT

	Household Formation	Household Maturation	Retirement Redefined			
			Preretired	Revolving	Traditional	Post
One Head	Single, No Kids	Child Free				
	Oldest Child under 12	Oldest Child under 18	Oldest Child 18 and Older			
Two Heads	Married, No Kids	Child Free				

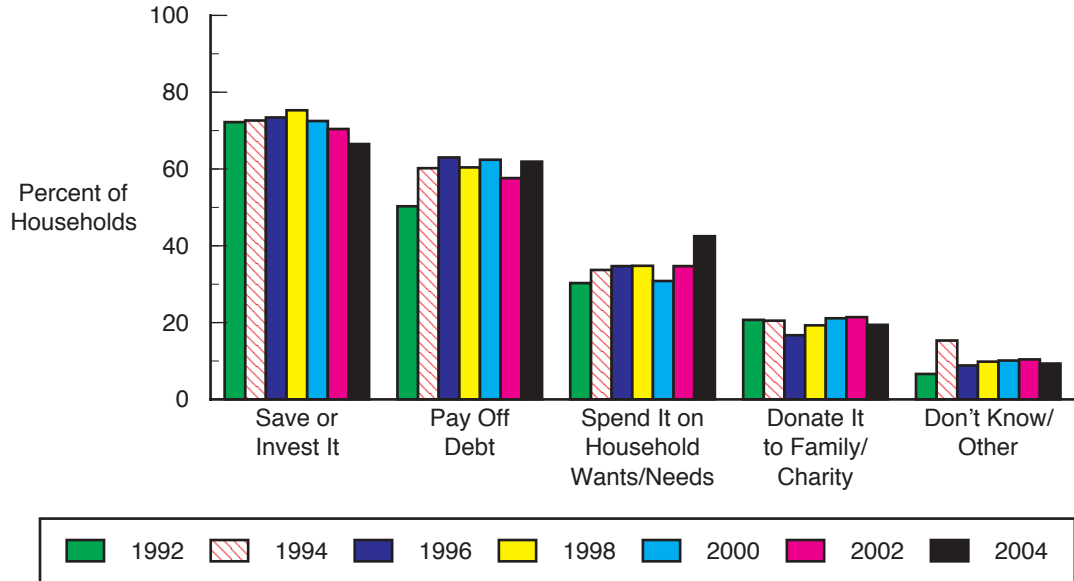
- Child Free households come from the already established nonretired or preretired households that do not have children now, did not have children, or do not plan to have children.
- Preretired, Revolving, Traditional, and Post are based on whether the household's focus is on accumulating, supplementing, managing, or disbursing assets, as well as on its employment status.

Source: **The MacroMonitor**

SRI Consulting Business Intelligence's Consumer Financial Decisions (CFD) program—the first organization to focus on the changing needs of retirement, first with a life-stage segmentation in 1992 based on a household's situation rather than age or income and more recently in 2000 with the expansion of retirement into four distinct life stages: Preretired, Revolving Retired, Traditional Retired, and Post Retired—returns to explore how the Revolving Retired are evolving. CFD created the Revolving Retired life stage by identifying the avant garde of the WWII cohort. The Boomers are now encroaching on this life stage. Financial-services providers who believe that the traditional products and services that they have developed for asset accumulation or guaranteed income are adequate will be unprepared for the needs of this vibrant and growing affluent life stage.

CONSUMER DISENGAGEMENT WITH FINANCIAL SERVICES

\$25,000 WINDFALL: WHAT TO DO WITH IT

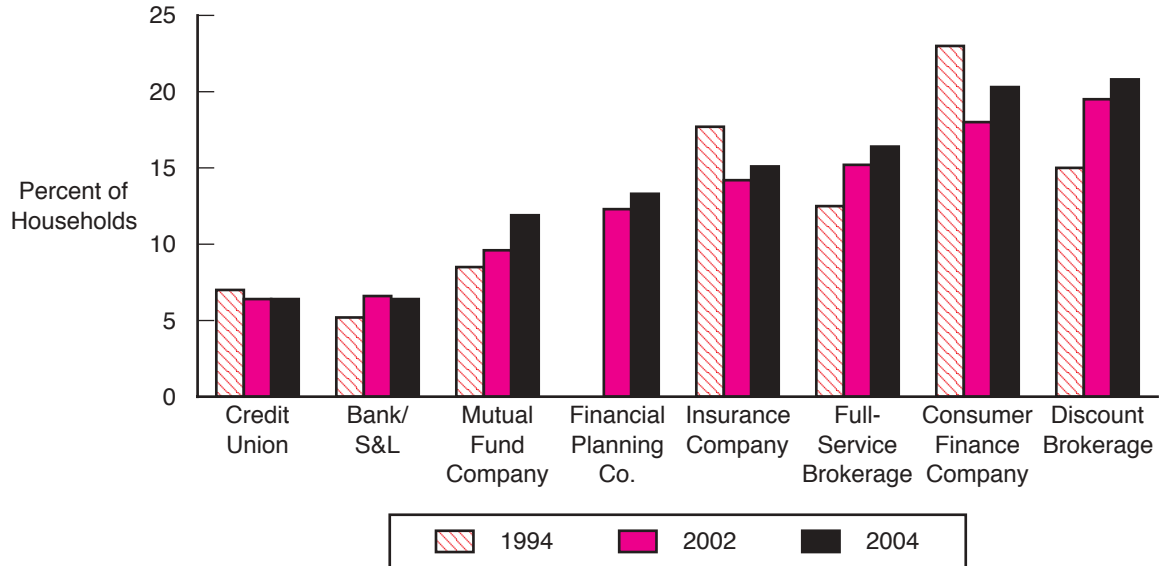


Source: **The MacroMonitor**

What happens when an immovable object meets an irresistible force? Consumers' inertia (that is, their tendency to continue to do what they have always done) makes changing their behaviors extremely difficult, but not impossible. If one exerts enough effort, one can overcome this inertia. After five years of economic turmoil, market volatility, corporate malfeasance, and questionable practices among a handful of financial institutions, consumer behavior has changed in virtually every area of financial need, only not in the direction that financial providers may have wanted. In other words, because of the events of the past five years, consumers have changed their ways. Declines are significant in household incidence of owning stocks, margin accounts, mutual funds, brokerage accounts, CDs, installment loans, credit cards, health insurance, disability insurance, supplemental insurance, and eye and dental insurance and in the use of specific types of financial advice. At the same time, increases are significant in online banking, ownership of debit cards and smart cards, and use of automatic bill payments. Sense a pattern here? It's a sign that the future of financial services includes consumers who are less engaged with their institutions, their intermediaries, and even their finances overall.

TRUST OF FINANCIAL INSTITUTIONS AND INTERMEDIARIES

HOUSEHOLD HARDLY TRUSTS FINANCIAL PROFESSIONAL AT ALL

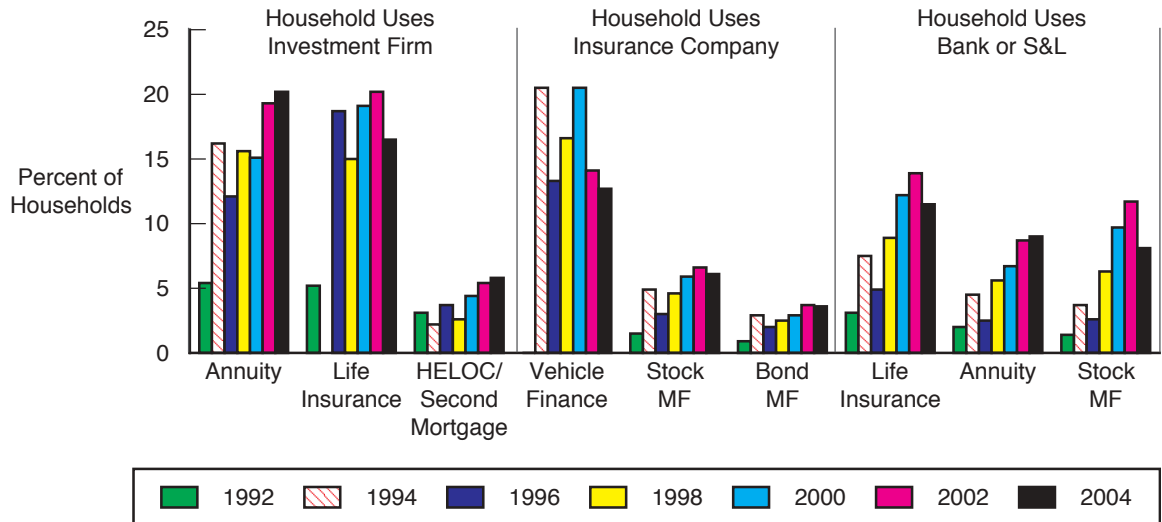


Source: **The MacroMonitor**

The proportion of households that hardly trust financial professionals increased significantly after the stock market bubble burst. The decline in consumers' trust of financial intermediaries between 1994 and 2002 has been significant. In the handful of years since, the stature of intermediaries has not improved and in most cases has deteriorated further. In spite of greater financial-services complexity, economic and marketplace uncertainty, and consumer dependency (on financial products and services), the more experience people have with ever more financial institutions, professionals, products, and services, the greater their mistrust. This mistrust is not universal—households differ significantly by income, assets, life stage, and psychographics. And financial-services providers can improve their relationship with their customers, which could lead to more products and profits.

CROSS-SELLING PROGRESS REPORT

USE OF ALTERNATIVE PRODUCTS



Base: Household Uses Each Institution

Source: **The MacroMonitor**

Cross-selling, convergence, providing a financial-services supermarket, organic growth—by whatever name, this essential strategy presents extreme difficulty in terms of finding a reliable, defensible measurement of growth or progress. Most research attempts to measure the progress of cross-selling tend to look narrowly at the two or three products in question only, and few maintain a comparable measurement for more than one or two surveys. The **MacroMonitor** metrics are based on a long-term, consistent measure across all types of financial institutions for more than 20 products. The findings in this presentation are based on a balanced, holistic, time-tested analysis.

The pool of potential customers, the number of products they need, and the time they are willing to spend on their finances are all finite. And because of consumers' disenfranchisement, their desire for simplification, or their poor selection of investments, this pool may be evaporating—making financial-services institutions' need for success in cross-selling more critical. What are the core products for a bank, an insurance company, an investment firm? What progress has occurred for selling additional products to consumers who have a core product at their primary institution? Has any progress occurred in selling products and services through alternative channels? Which products promote additional cross-selling? Good news and bad news abound in this critical area—and plenty of room exists for improvement.

NEW LIFE STAGES: CHILD FREE, POST RETIREMENT, AND EXTENDED ADOLESCENCE (BOOMERANG KIDS)

NEW LIFE STAGES: CHILD FREE, POST RETIREMENT, AND EXTENDED ADOLESCENCE

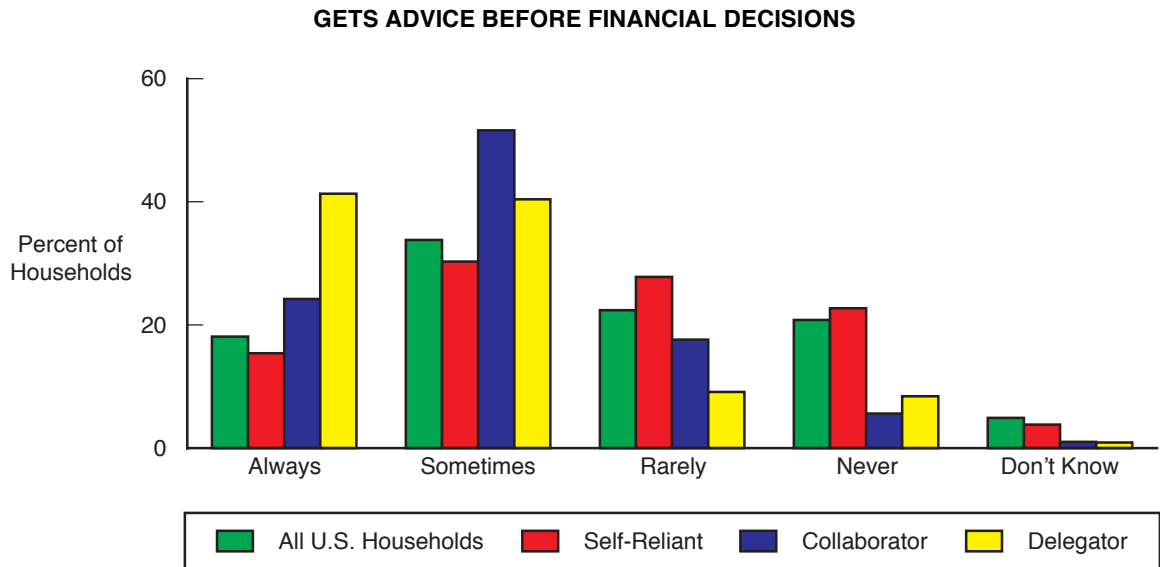
	Household Formation	Household Maturation	Retirement Redefined			
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Source: **The MacroMonitor**

Although much of financial institutions' focus these days is on the Boomers and their impending retirement, we have identified several other new life stages recently—each with unique financial needs. Lower birth rates, extended life expectancy, and economic realities have created clusters of households—Child Free, Post Retired, and Extended Adolescence—whose financial needs do not fit neatly into the established pattern of existing life stages, much less into the old, overgeneralized segments of the Ozzie-and-Harriet era. Child Free households are past the household-formation years, but have not yet reached the focused “sprint” to retirement characterized by the empty-nesters of the Preretired life stage. Continuing medical advances promise the benefit of a longer life but also the greater chance of an extended period of intensely expensive dependent living with reduced mental faculties. Unlike most other life stages, Post Retirement requires advance decisions and assigned advocates for contingencies. But the most interesting and challenging new life stage is Extended Adolescence. It includes households in which adult children return to (or remain in) the home instead of striking out and starting their own households. Imagine the financial needs of a household with “children” in their twenties in which the parents are striving to retire or actually have retired! Financial providers may choose to profit from establishing new products and services to meet the unusual financial needs of these life stages.

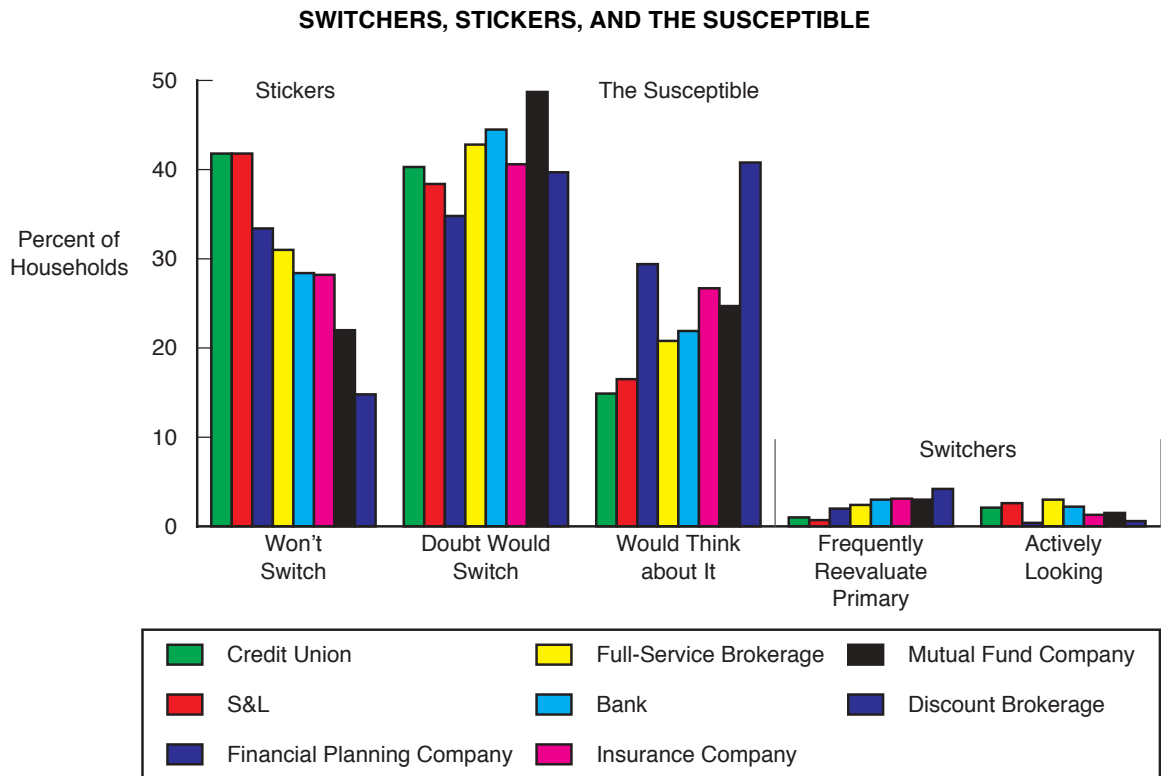
UNDERSTANDING THE SELF-RELIANT, THE COLLABORATOR, AND THE DELEGATOR



Source: 2004–05 MacroMonitor

This trio of basic investor psychological segments—the Self-Reliant, the Collaborator, and the Delegator—has had lots of attention in the press, yet financial-services researchers have done very little to understand each of these groups comprehensively and how each has changed in the past decade because of the stock market bubble, its burst, the recession, the string of corporate malfeasance, and the misbehavior of a few highly visible institutions in the financial-services industry. Some slivers of analysis have purported that these groups have different goals in terms of the channel of interactions, the amount and type of assistance, and even the content of their advice and planning. How many of these differences are actually due to life stage, demographics, different goals, or resources? Do significant differences exist in terms of institutional preferences, types of products, or services? What other distinctions exist in terms of the sources of information that these segments use, the topics about which they wish to learn more, and the products and services they are likely to obtain? Financial institutions are adjusting their products, services, distribution, and marketing to take into account these three types of consumers. The more comprehensive an understanding of these three segments, the better the insights. And the better the insights about these three segments that can integrate into the complete marketing process, the better the segments' needs will be met and the more likely the segments will be to respond to financial-services institutions' offerings.

INSTITUTION LOYALTY: SWITCHERS, STICKERS, AND THE SUSCEPTIBLE



Base: Household Uses Institution Type as Primary

Source: **The MacroMonitor**

The ultimate test of customer satisfaction, service quality, and customer loyalty is whether the customer stays or leaves. We take a pragmatic approach to the issue of customer retention; we boil the problem down into three, self-selecting populations: Switchers—those households that are looking and likely to switch, Stickers—those households that won't switch institutions, and the Susceptible—those households that may be influenced to switch. Simply identifying and sizing these populations for primary users of each type of financial institution would be a revelation. But, because of the **MacroMonitor**'s comprehensive scope and coverage, we can not only identify and size these segments, but we can profile significant differences in their demographics, balance sheets, life stages, life events, and financial goals and attitudes. Financial institutions can leverage these differences to attract their competitors' most vulnerable customers and retain their own.