

# Customer Relationship Marketing

## Skipton Financial Services Limited

### Executive Summary

Investing your money is typically a long-term commitment, yet this is rarely reflected by the general standards of service which many financial advisory companies provide. They may offer great initial service when you first come to invest; but over the subsequent months and years, many are guilty of failing to adequately stay in touch and inform you how your money is performing – or review whether changing economic conditions mean you need to consider making changes to your portfolio.

Skipton Financial Services (SFS) held the view that, across the financial advisory marketplace, the perception was that the standard of service clients' desired is considered too costly to deliver. This is especially a problem with investors who have less to invest, who are generally not treated as fairly.

To address these issues and other common frustrations investors have towards financial advisers, in 2009 SFS developed and launched a unique, market-leading investment proposition – Monitored Informed Investing (*MII*) – which places strong client service at the heart of every step. The overall aim of *MII* is to deliver clients above average returns over the medium to longer-term; with six collectively unique promises outlining the level of commitment SFS will deliver.

Since the launch of *MII* and up until 31 December 2011, over 21,000 clients are benefiting from our collection of promises and a collective £1.23 billion has been invested – vastly exceeding our own expectations and targets. SFS has continued to evaluate the service by proactively seeking feedback from clients and advisers, in order to deliver further improvements. 92% of our clients rate our service as very good or excellent, and 93% would recommend SFS to other people.

# Submission

## Introduction

It's all very well wowing clients with great initial service, which encourages them to invest their money. However, over the longer-term, too many financial advisers are guilty of failing to maintain high levels of service and of leaving their clients in the dark. When you consider the economic turmoil of the last few years, for advisers to continue earning ongoing commission – while clients are left anxiously worried about how their investments are performing – hardly seems fair.

At SFS, we were mindful that the average length of time a client invests with us was 11 years. We believed that – in return for making such a commitment with us – clients deserve to receive the highest standards of service at all times. By building an investment proposition which focused on the investment experience – Monitored Informed Investing (MI) – we were confident we could improve client retention while also attracting more new clients, who were possibly disenfranchised by the service they were receiving elsewhere.

Across the financial advisory marketplace, companies view the standard of service clients' desire to be too costly to deliver – particularly investors with less than £100,000. Yet we believed that focusing on providing strong service could pay off financially in the long-run in terms of client retention (as they pay ongoing charges).

## Developing the strategy

The first step towards creating MI was to research and establish just how wide the gap was between investors' expectations and the level of service provided in the financial advisory marketplace.

- We spoke to existing SFS clients (through questionnaires and focus groups) to determine what they liked/disliked about our service and financial advisory companies in general.
- We also spent considerable time obtaining the views of our financial advisers, because they have a unique insight into what their clients really want.
- Finally we looked at our competitors – what they do well, where they might be lacking – so we could ensure our proposition is truly market-leading.

A common complaint investors have against financial advisory companies is their lack of ongoing contact; so we developed six standout promises around maintaining close relationships with clients in a centralised, cost-effective manner.

This includes ongoing monitoring of their funds, regular communications of performance, fund switch offers and ISA transfers – all of which come at no additional cost to the client.

*Page from the MI promises brochure that all clients considering investing receive, outlining the six collectively unique promises.*

**What is MI?** **MI**

Whatever financial goals you have set, by investing in MI Core Funds you can be confident of our commitment to helping you achieve them. Our unique combination of promises underpins how we will strive to deliver above average returns on your investment, with the needs of our clients and excellent service always at the heart of everything we do.

**Our unique promises to you**

- 1 Individual Risk and Reward Assessment**  
We will firstly work with you to assess your Risk and Reward profile – so we only recommend investments that match your specific needs. This provides peace of mind that we will invest your money in a manner you feel comfortable with.
- 2 Performance Monitoring**  
Our aim is to help you achieve your financial goals by investing your money into MI Core Funds that aim to deliver above average returns over the medium to longer-term.  
If we believe any of your MI Core Funds should be switched to achieve this, we will offer to do so and make no additional charge. If any of your MI Core Funds underperform over a period of time, we will reimburse our MI Ongoing Charge for as long as this poor performance continues, or until we offer you a Fund Switch.
- 3 Minimise Tax**  
Through our MI ISA Transfer Facility we'll help you make the most of your annual ISA allowance, either by investing new funds, at the start of the new tax year (April), or by transferring existing investments during the tax year into an ISA. This approach will ensure your investments are as tax-efficient as possible.
- 4 MI Quarterly and Annual Reports**  
We'll write to you four times a year to keep you updated with all your MI Core Fund investments – including any actions we recommend you should take. Through this approach, you can be confident of knowing how your investments are performing.
- 5 Online Access**  
You'll be able to access comprehensive online investment information whenever you require it, to keep you constantly informed.
- 6 Helping Your Beneficiaries**  
If you die within three years of making an MI investment and are still an MI investor at that time, we will rebate to your beneficiaries, or registered charity of your choice, the MI Initial Charge SFS received when you invested. This unique commitment provides you with increased confidence to invest, knowing your beneficiaries won't be disadvantaged by MI charges if the worst happens during your early years of investing.  
Irrespective of when you pass away, if your beneficiaries choose to reinvest the proceeds of your MI investments with SFS, we will waive all the MI Initial Charges if they don't require financial advice. If they'd prefer advice they will still only have to pay a discounted rate of 50% of the MI Initial Charge.

While we are not claiming every individual promise is unique, SFS has studied and continues to monitor our Financial Services competitors – and we believe no one matches the combined promises of MI.

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## Delivering greater value to clients

The six MII promises are aimed at providing strong service to clients at every step of the investment journey. From initially determining their appetite to risk and reward – so they feel comfortable regarding how their money will be invested – through to helping their beneficiaries in the event of death, clients can be assured that SFS will look after their best interests.

One of our key promises is to keep clients informed. While they can be assured SFS is regularly monitoring their investments on their behalf, clients also receive comprehensive, personalised quarterly and annual reports providing updates on their individual fund performance. These reports include a fund-by-fund breakdown of latest returns, a concise commentary on the reasons for recent performance and further recommendations (such as whether to invest more into this fund).

These quarterly reports have been well received by clients, and SFS Advisers even use examples of them as sales tools to attract new investors – visually showing them what they can expect to receive via MII.



Example of the MII Quarterly Report pages



Examples of the MII Annual Report pages

Another promise – to minimise tax by helping clients make the most of their annual ISA allowances – involves writing to the client at the start of the new tax year to offer them the opportunity to invest new

money into an ISA through MII. If they don't have additional funds, we make a further offer to switch a portion of their existing MII investment into an ISA, at no cost, to minimise the tax they have to pay on the investment. Many other advisers consider this too costly to arrange on clients' behalf, so don't offer this service.



*A page from the 2010 Annual Report, which explains to clients when they will receive MII communications from SFS over the coming 12 months.*

### Taking true responsibility

There are certain risks to investing money which every adviser makes clear to their clients – including no guarantees of capital growth, the client could potentially lose money, and that no one can predict how investment funds will go on to perform. But even allowing for the fact a client will understand and accept these risks, we don't believe this means the advisory company should be free from responsibility if their advice leads to the client's investment under-performing for a period.

So if an MII Core Fund which SFS recommends delivers below average returns for a certain length of time, we will rebate our ongoing charges for as long as poor performance continues or they are offered a fund switch. In the latter scenario, the client wouldn't have to pay to switch their investments into an alternative fund recommended by SFS. This commitment does not come cheap, but we believe that – by doing the right thing by our clients – they are more likely to remain with us and even make further investments.

We don't believe that we should be paid if clients' investments are under-performing. And by committing to rebating our charges, we are aligning business performance directly with the fortunes of our clients.

## Aberdeen Multi Manager Cautious Fund

An encouraging start to 2011 has contributed to the Aberdeen Multi Manager Cautious Fund achieving a 2nd quartile return of 6.5% for the past 12 months. Against a sector average of 4.8%, the Fund continues to deliver above average performance.

Quarter one 2011 saw Fund Managers Aidan Kearney and Graham Duce make a number of changes to the Fund's fixed interest asset holdings. The aim is to ensure the underlying funds selected offer a greater scope of investment, in view of fast-changing market conditions which they anticipate over the coming months.

This Fund had limited exposure – compared to some others – to the Japanese market falls that followed the Tōhoku earthquake and tsunami. That said, Aidan and Graham quickly took steps to reduce the impact and position the Fund to benefit from subsequent market recoveries.

Looking more long-term, the team had already decreased its US equity exposure in favour of a high conviction, Europe-focused fund. They believe that both this underlying fund and market offer the potential to deliver strong returns.

Aidan and Graham are conscious market volatility is likely to return to the markets in 2011. So they are positioning this Fund in a manner that aims to reduce the potential negative impact, while taking advantage of the growth opportunities – such as in equities – which they believe will occur.

**L&G Bond Holders Only**  
If you have invested through the L&G Bond the performance is 5.9% for the period 31/03/2010 to 31/03/2011. This is a result of the different charging structure and taxation of the L&G Bond. The adjacent commentary is based on the underlying collective fund performance against its Investment Management Association (IMA) sector rather than the equivalent Association of British Insurers (ABI) Sector that this life fund falls within.

SFS Risk & Reward Category:

Medium Low Risk

Annual Performance\*  
1 Year to 31/03/2011

6.5%

Sector Average Performance:

4.8%

January to March 2011 Performance*	0.6%
October to December 2010 Performance*	4.1%
July to September 2010 Performance*	6.1%
April to June 2010 Performance*	-4.1%

Current Fund Status:

Buy

We are recommending people continue to invest new money in this Fund.

The Aberdeen Multi Manager Cautious Managed Fund delivered an above average return of 6.5% for the previous 12 months. Fund Managers Aidan Kearney and Graham Duce are confident of taking advantage of market opportunities that will occur in 2011.

Quartile performance: 1st quartile ■ 2nd quartile ■  
3rd quartile ■ 4th quartile ■

\*Discrete return figures take account of the ongoing fund management charges but excludes any initial charges and is before tax.

*Example MII Quarterly Report Fund commentary page*

### Targeting clients

SFS has built up a number of affinity partnerships (12 in total) – which enable us to promote our range of services to a variety of audiences. These affinities include the Daily Telegraph newspaper, the National Association of Head Teachers and other building societies. We produce bespoke MII marketing material for each affinity, and make the most of available marketing channels to promote the proposition – such as advertorials in the Daily Telegraph.

We also work closely with our parent company, Skipton Building Society (SBS), to utilise the Experian market segmentation systems – and our affinity partner, the Daily Telegraph, to profile customer data via its Acorn database – in order to promote MII to both their customers and our own back book of existing clients. This data is organised by personal wealth and also by UK region. By segmenting the customer bases in this way, we can target customers/clients with a greater propensity to invest into MII, and ensure that our network of advisers – based in SBS branches across the UK – each have sufficient levels of appointments in order to sell MII.

This approach has proved hugely successful in regards to quickly building MII client numbers, and we continue to work closely with SBS to target new and existing customers who might be interested in the benefits of MII.

### What clients think of MII

Client engagement in the MII experience is high. Since launch in July 2009 and up until 31 December 2011, we have offered four fund switches – 98% of affected clients electing to take them up. So far, during the 2011/12 tax year, we have helped 5,800 clients shelter over £50 million through our ISA transfer facility.

To help us further improve, SFS issues a questionnaire to every client when they invest, holds focus groups and has established a literature feedback panel. As part of this we ask clients to rate each promise out of five. 91% awarded the fund monitoring aspect four (very good) or five (excellent), closely followed by the risk and reward assessment (89%). This demonstrates that clients feel comfortable with the level of risk they undertake, and are pleased by the frequency of communications they receive.

Overall, 81% of clients rate *MII* as very good or excellent compared to our competitors.

Client feedback on <i>MII</i> and SFS in general	Latest	Overall
Rate the overall SFS experience as very good or excellent	92%	92%
Rate <i>MII</i> as very good or excellent overall	86%	88%
Rate <i>MII</i> as very good or excellent when compared to our competitors	86%	81%
Based on your experience with SFS, would you refer us to a friend/ family member?	90%	93%
Feel the SFS experience is better than that offered by their other Financial Adviser/s	66%	65%
<i>MII</i> given more confidence to invest in equities and other non-guaranteed products	69%	64%

Latest figures from March 2011 to January 2012. Overall figures from July 2009 to January 2012.

### The cost of putting clients first

The implementation of *MII* was not a simple product launch – it involved changing the way the business operated and revamping systems. This included updating the sales process, re-training advisers, implementing new IT systems, developing the relationship with our mailing house and focusing on employee engagement and company values, so all staff were behind *MII*.

In order to deliver on the promises of *MII*, there are certain ongoing costs in regards to the quarterly and annual report communications, ISA Direct and transfer facility mailings and writing to clients whom we recommend switching to another fund. The cost of these communications was approximately £53,000 in 2009, 203,000 in 2010 and £268,000 in 2011.

Although these costs are not inconsiderable, the average trail income we receive from clients remaining in *MII* – just under £1m per month in 2011 – underlines why we believe it's vital to continually provide clients with strong service throughout the length of their investment, in order to retain their business.

### Transforming our business

The success of *MII* and in building stronger customer relationships can be seen by a spectacular improvement in SFS's business performance. In 2010 – the first full year offering *MII* – overall profit increased by 136% and then by 18% in 2011.

SFS is a subsidiary of Skipton Building Society. This means a proportion of profits are paid to the Skipton Group. In 2010 and 2011, SFS contributed £7.5m and £10.7m respectively – compared to £0.5m in 2008.

These back-to-back record annual profits have been built upon a long-term platform of receiving ongoing commission, which will allow us to significantly grow the business over the long-term. In 2011, we were achieving just under £1m trail income per month – this should continue to rise as we

attract more new clients. Pre-*MII*, the average client length of investment was 11 years, so – if this average is maintained or improved upon through *MII* – SFS will be in a strong position for years to come.

Client retention and business levels have also improved. In 2010, (first full year offering *MII*) the number of clients who left SFS reduced by 10% compared to 2008 (last full year pre-*MII*). In total, just 92 *MII* clients have elected to wholly encash their investments since launch (out of over 21,000 *MII* clients). Prior to *MII*, the average client investment was £26,495 – since launch the average has more than doubled to £57,000.

This transformation doesn't just stretch to client satisfaction and profits. Internally, staff engagement has increased considerably and can be measured by regular staff surveys. In December 2008 only 56% of staff were confident in SFS's long-term future – rising to 89% in December 2011. Awareness of business objectives has increased from 62% to 96%. Looking at the future, in 2011 85% of respondents expect to still be at SFS in three years' time – up from 78% in 2009 and 71% in 2008. Staff are considered a key part of that success, and every non-sales staff member received annual bonuses in recognition of their role in delivering the record profits of 2010 and 2011.

All of which helped SFS to be named one of the Top 100 UK Companies to Work For by the Sunday Times, in both 2011 and 2012.

By placing it at the heart of the business, *MII* has transformed – and continues to transform – our fortunes.