

THE Marketing Connection

QUARTERLY MARKETING
INSIGHTS FOR BANK
MARKETING EXECUTIVES



JANUARY 2000

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INTRODUCING :

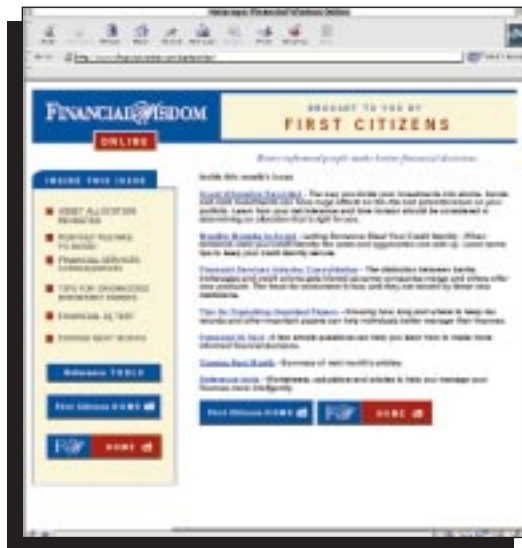
FinancialWisdom® OnLine

FinancialWisdom® OnLine provides useful and educational content for your web site visitors. Each month, four to six new articles address financial issues important to customers and prospects. A reference section provides visitors with worksheets, calculators and reference articles to help them make better financial decisions.

This addition to your web site encourages visitors to keep coming back to your web site and positions you as the provider of financial solutions. It demonstrates your dedication to their total financial well-being.

As the Internet plays an increasing role in the financial services world, bank web sites will evolve from electronic brochures to transactional services to true customer service. The educational articles and tools of FinancialWisdom OnLine represent an easy way to provide customers with additional service and add more value to a relationship with your bank.

By clicking on the FinancialWisdom OnLine icon on your site, visitors can get the informative and useful tools to help them make better-informed decisions. Each page is branded with your bank name.



Fresh Content = Repeat Visitors

There are no “outside links” to take them away from returning to your web site.

Fresh monthly content and useful financial tools are valid reasons for customers to visit your web site more often and choose your bank as their primary financial institution.

CHANGE, CHANGE, CHANGE

Technology, legislation and competition promise to make 2000 interesting, if not stressful. The landscape continues to change dramatically. Consider the following:

PRINCIPAL FINANCIAL INSTITUTION DESIGNATION

1992 - Banks 59%, Credit Unions 14%

1999 - Banks 51%, Credit Unions 20%

MUTUAL FUND RETIREMENT ASSETS

1990 - \$250 billion

1998 - \$1.8 trillion

HOUSEHOLDS OWNING STOCK

1989 - 27%

1999 - 48%

More competitors are entering your marketplace. Credit unions, brokerage firms and mutual fund companies want to be your customers' primary financial institution. Leasing, mortgage and credit card companies want your most profitable business.

This challenge requires more than quality products and competitive pricing. The inherent relationship with your customer can be your competitive advantage. Make that relationship so valuable that the “barriers to exit” are so high that they make your bank their financial institution of choice.

FINANCIAL WISDOM®

Each quarter, this space is devoted to some useful and interesting issues to help improve the effectiveness of your marketing efforts. This quarter we offer:

SAGE ADVICE FROM THE MASTERS

1. If it doesn't sell, it's not creative.
2. Never try to sell two things at once. If you confuse them, you lose them.
3. Eliminating the first paragraph improves most letters.
4. A letter makes direct mail unique. A mailing with a letter is almost always more effective than one without a letter.
5. People will buy for four reasons only. Price, service, quality or exclusivity. If your price is lowest, they will buy. If you offer great service (quick delivery, satisfaction guarantees, helpful sales staff), they will buy. If you offer marvelous products, they will buy. If your product is available from no other source, they will buy.
6. Without two of the four elements above, your business is in jeopardy.

UNDERSTANDING RISK AVERSION AND PRIDE OF OWNERSHIP

Human Nature versus Rational Financial Decision Making

An understanding of how consumers make financial decisions, the study of behavioral economics, can make your marketing efforts more effective. A recent book *Why Smart People Make Big Money Mistakes - And How to Correct Them* by Gary Belsky and Thomas Gilovich examines how human nature affects the financial decision making process.

The two basic principles discussed in this book are:



Mental Accounting - Even though "a dollar is a dollar", we often put a higher value on some dollars and thus tend to waste the less valuable dollars.

Prospect Theory - How we frame financial decisions (or label potential outcomes) affects our attitudes toward risk.

Mental Accounting Our views of different "types" of money are often based on their source, relative size and expected use. In one MIT experiment, students using credit cards would pay twice as much for basketball tickets than students using cash. Casino winnings are often bet more aggressively than gamblers' "own" money. A \$150 car option seems cheaper than a \$150 sweater.

Prospect Theory We place greater emphasis on losses than gains. The pain of a \$1000 loss is about twice as great as the joy of a \$1000 gain. This can result in different decisions based on a decision's framing. We tend to be more aggressive when facing losses than when facing gains.

Investors often hold losing positions too long and sell profitable positions too early. Many overspend repairing an older car rather than buying a new one.

We tend to keep things the way they are and to like what we have. The resulting resistance to change often leads to missed opportunities and the anguish of regret.

Marketing Implications Individuals can overcome their natural "mental accounting" with ideas like direct deposit, automatic savings plans, dollar cost averaging with mutual funds and judicious credit card use.

Retirement Plan Distributions:

AN OPPORTUNITY FOR CUSTOMER SERVICE / AN OPPORTUNITY FOR GROWTH

A retirement or a job change can be stressful. Stress comes from a change of environment, and often, from decisions about retirement plan distributions.

One of five 401(k) accounts exceeds \$100,000



Better plans, larger contributions and a rising stock market have enabled many to accumulate \$50,000, \$100,000 or more in their retirement plan. When they change jobs or retire, those balances are often distributed. This usually is the largest single sum a person will ever have. Decisions about paying taxes, investments and whom to trust for the right advice must be made.

Opportunities for the bank

By helping customers with those important decisions, the bank fulfills its mission of enhancing customers' overall financial well being. Also, the bank can often be the beneficiary of additional deposits, IRA accounts and investment accounts. The long-term nature of these funds means

the accounts will stay longer. Funds are often put into longer term certificates.



Providing quality service at this time also positions the bank as the financial institution of choice even after the person retires, moves or takes a new job. What a great time to remind the customer how much you value their relationship.

Taking advantage of the opportunity
An effort to capture lump sum distributions requires a few steps:

- a. You need deposit and investment options to receive these funds. This can be as simple as IRA savings certificates, or as complex as a complete investment capability.
- b. Your personnel must help customers face the issues. Deferring income taxes by transferring funds to an IRA and recognizing their long-term nature are most critical issues.

c. Customers must know their bank can help them.

d. Finally, you must be aware of likely recipients of distributions. Age information from a MCIF system, retirements, restructurings and layoffs are all sources.

Getting the word out The competition for this business is intense. Lump sum distributions have become the largest source of assets for brokerage firms. Your customers must think of your bank when they know a distribution is coming.

Communicating your capabilities and willingness to offer service is critical.

Be sure the HR personnel of local employers are aware of your capabilities. They usually spend considerable time on retirement plan issues with these individuals.

Offer workshops on "Handling Retirement Plan Distributions." This attracts customers (and potential customers) likely to receive distributions.

Use your newsletter to inform customers of your capabilities and dedication to their over-all financial well being.

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Human Nature versus Rational Financial Decision Making continued

Helping customers view financial decisions as part of a total financial strategy can solidify your position as the provider of financial solutions.

Framing an offer as a preference (of the new) or a rejection (of the old) influences decision making. When faced with a preference decision, people tend to focus on the positive qualities of the options.

When facing a rejection decision, people tend to focus on the negative qualities of each option.

Most financial decisions are conscious decisions for change. Overcoming the resistance to change is easier when barriers to change are lowered and the human and financial benefits of change (including making the decision) are great enough to overcome the natural tendency toward the status quo.

Retirement Plan Distributions continued

How FinancialWisdom can help
The FinancialWisdom newsletter program uses personal letters with highly customized newsletter inserts. The newsletter's educational nature coupled with a personal letter demonstrates your capability and willingness to help customers deal with their important financial issues.

LEARN MORE ABOUT THE FINANCIALWISDOM® PERSONAL COMMUNICATION MARKETING STRATEGY:

MAIL	Financial Wisdom Marketing Services, Inc. 42 Sherwood Terrace, Suite 6 Lake Bluff, Illinois 60044	PHONE (800) 723-7237 FAX (847) 604-8405 EMAIL info@financialwisdom.com
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- Yes, send more information about the FinancialWisdom personal communication program.
- Yes, send more information about FinancialWisdom OnLine.

NAME _____ TITLE _____

INSTITUTION NAME _____

ADDRESS _____

CITY _____ STATE _____ ZIP _____

TELEPHONE NUMBER _____ FAX NUMBER _____

WEB ADDRESS _____ EMAIL _____

BEST TIME TO CALL _____ AM PM NUMBER OF BRANCH LOCATIONS _____

Segment Groups/Life Events

- | | |
|--|--|
| <input type="checkbox"/> Generation X'ers
College Graduation
Marriage
Car Purchase
Graduate School
Birth of Children | <input type="checkbox"/> Seniors/Mature Adults
Major Promotion
Retirement
Birth of Grandchildren
Inheritance
Death of Spouse |
| <input type="checkbox"/> Baby Boomers
Home Purchase
Career Advancement
Inheritance
Empty Nest | <input type="checkbox"/> Small Business Owners
Expansion
Acquisition
New Product Development
Sale of Business
Import/Export |

Product Focus

- | | |
|---|--|
| <input type="checkbox"/> Home Mortgages | <input type="checkbox"/> Auto Loans |
| <input type="checkbox"/> Home Equity Loans | <input type="checkbox"/> College Loans |
| <input type="checkbox"/> Investment Products | <input type="checkbox"/> Trust Services |
| <input type="checkbox"/> Mutual Funds | <input type="checkbox"/> Lines of Credit |
| <input type="checkbox"/> CD's and Deposits | <input type="checkbox"/> Retirement Plans |
| <input type="checkbox"/> Checking | <input type="checkbox"/> Letters of Credit |
| <input type="checkbox"/> Credit/Debit/ATM Cards | <input type="checkbox"/> Payroll Services |
| <input type="checkbox"/> Insurance | <input type="checkbox"/> Cash Management |
| <input type="checkbox"/> IRAs | |

Comments and other information to help us better understand your issues. _____
