

# Client retention

Why clients leave and five ways to encourage them to stay



While you're focusing on growing your business by signing new clients, don't overlook one of the most important keys to growth—client retention. It's not just about getting clients in the door and selling them on your services. Maintaining effective, long-lasting relationships is just as important.

A study by Bain & Company reveals, in financial services, a 5% increase in customer retention produces a 25% increase in profit.

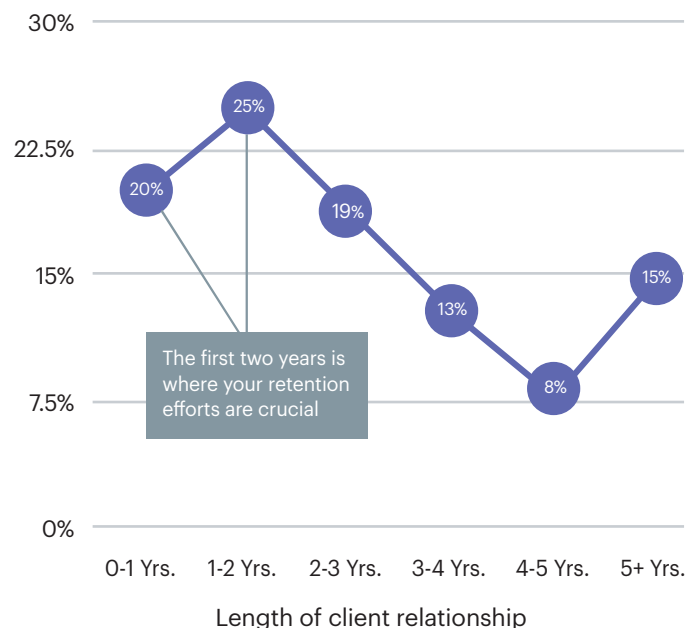
– Source: *Prescription for Cutting Costs*, Bain & Company, 2014

## ADVISORS FACE A CUSTOMER RETENTION CHALLENGE

You may have heard how the first few years are the most crucial when it comes to client retention. At E\*TRADE Advisor Services, we analyzed the data from 180 RIA clients and their investor accounts, and we've confirmed that this is

indeed true: the first two years is where the battle for client retention is won or lost. On average, of those clients who leave an advisor, 20% leave within the first year and 25% leave within the second year (see chart at right).

**Percentage of clients who leave during a given year**



Source: E\*TRADE Advisor Services analysis of 180 RIA clients, 2016

WHY DO CLIENTS LEAVE? *continued*

This means it's extremely important for advisors to focus on how they can retain clients in the first two years—for example, ensuring clients don't feel neglected, reaffirming they understand their investment plan, answering all their questions as they come up, and generally growing the relationship. A lot of this rests on setting the right expectations from the start and then following through.

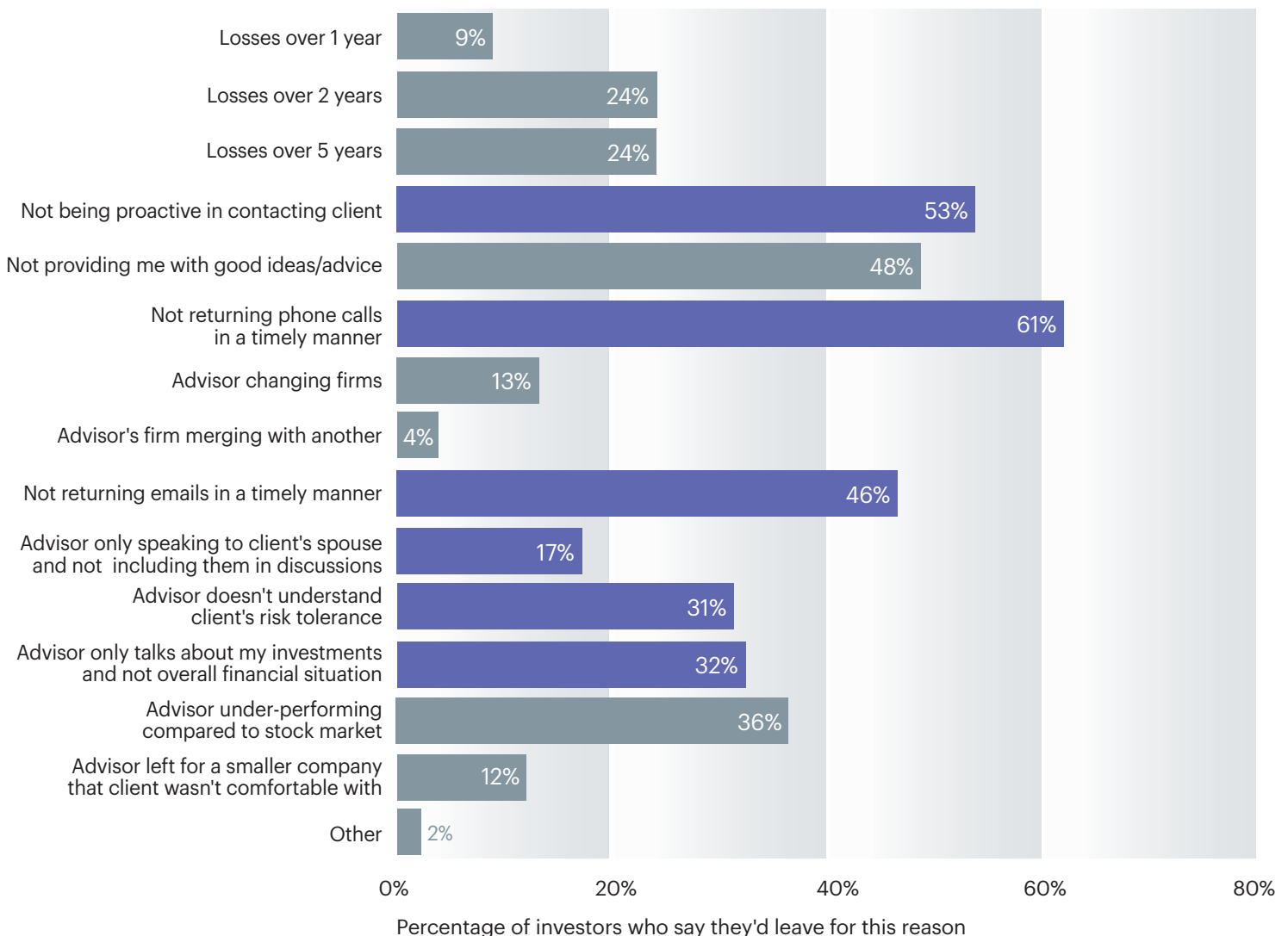
What steps can you take to bolster retention? First, we'll look at the specific reasons clients say they leave,

and then we'll dive into what you can do to reduce the chances of that happening.

**WHY DO CLIENTS LEAVE?**

While performance is certainly important, you might be surprised to find out that it's not the most important factor. According to a study conducted by The Spectrem Group, three of the four most highly-cited reasons that investors with a net worth between \$1 million and \$5 million say they would leave their financial advisors are service-related: <sup>1</sup>

**Why millionaire investors leave their financial advisors**



<sup>1</sup> Source: How Financial Advisors Can Keep Their Millionaire Clients, Spectrem Group, 2014

- The advisor doesn't promptly return phone calls **(61%)**
- The advisor isn't proactive about contacting the client **(53%)**
- The advisor doesn't provide good ideas and advice **(48%)**
- The advisor doesn't return emails in a timely manner **(46%)**

In fact, there are at least seven service-related issues that these investors cite as reasons to leave an advisor (shown in purple bars in the graph on previous page.)

Client retention isn't just about making your clients more money—although that certainly helps. A lot of it has to do with setting the right expectations and providing the right service based on those expectations. As long as the client's experience matches or exceeds his or her expectations, chances are greater that the client will remain satisfied with the relationship.

### **FIVE WAYS TO ENCOURAGE YOUR CLIENTS TO STAY**

#### **1. Excellent customer service**

It's impossible to understate the importance of good customer service. Bad customer service is actually the main reason for customer-churn in any industry—as hundreds of different surveys and studies will tell you.

When talking about good customer service, it really comes down to one big question: Do you make your clients feel valued? Everything else is an extension of that. Responding to emails and phone calls promptly is a sign of valuing your clients' time and caring about their questions. Making an effort to provide your clients with good ideas and advice indicates you value them as clients and want them to succeed. Communication is key to making clients feel valued and satisfied with their relationship with you.

So what can you do to improve? Review your current service model and see if there's any room to provide a better client experience. Consider regularly sending out emails about the latest news or trends that may impact your clients. Even short emails with a link to a good article show you're always staying up-to-date and care about making sure your clients do, too. How often are you reaching out to your clients or meeting with them—and would they prefer it to be more frequent? When in doubt, simply ask. They'll appreciate you asking for their opinion.

Perhaps it's even a matter of investing in a more robust technology. After all, if you can automate more back-office tasks and become more efficient, you can free up time to spend on client service.

#### **2. Risk management suited to the client**

Thirty-one percent of millionaire investors said they'd leave if their advisor didn't understand their risk tolerance.<sup>2</sup> Good risk management is crucial to a long-lasting client relationship, and it comes down to the ability to effectively manage expectations and emotions. The best advisors know how to effectively steer a client's thoughts and emotions when it comes to major financial decisions—but they also know how to listen.

Before you suggest anything to your clients, talk to them and make sure you truly understand their risk tolerance—and take that into account when explaining your investment process and the associated risk involved.

Set the right expectations and remember to communicate with your clients. If there's a sudden market fluctuation, for example, your risk-averse investors will probably need to hear from you. Risk management is a process that goes beyond initial portfolio creation.

#### **3. Deeper connections**

Thirty-two percent of respondents said, "The advisor only talks about my investments and not my overall financial situation."<sup>2</sup> Think about it: your client is

making a very important, potentially long-term commitment when choosing an advisor. It's a decision that could deeply impact an entire family's life, and every investor wants to feel like their advisor cares about that. It's not just about numbers and returns—but about real people and their futures.

Does showing you care about a client's overall financial situation help client retention rates? The data says yes. According to PriceMetrix, advisors are 9% more likely to retain clients who have multiple retirement accounts than those who have no retirement accounts.<sup>3</sup> The analysis conducted by E\*TRADE Advisor Services paints a similar picture. When we reviewed 10 years

of our data, we found that financial planners lose 26% fewer accounts than all advisors as a whole.<sup>4</sup>

#### **4. Flexibility**

It's not enough to just offer more in terms of planning for the future. It's important you take the time to find out what else your client wants and needs, and then be flexible to accommodate that. Make sure you're always asking questions in order to provide the right mix of services. Could some clients benefit from added services like tax planning or estate planning? Do your wealthier clients need something different from those not as wealthy?

<sup>3</sup> Source: Stay or Stray: Putting Some Numbers Behind Client Retention, PriceMetrix, 2013

<sup>4</sup> Source: E\*TRADE Advisor Services analysis of 180 RIA clients, 2016



**Clients with deeper relationships with their advisors are more likely to be retained, according to a study by PriceMetrix.**

According to an Ernst & Young 2018 wealth management outlook,<sup>5</sup> today’s clients want their wealth to be viewed and managed holistically. They value holistic advice on how to achieve multiple, often conflicting goals through a range of investment and funding strategies. This planning approach spans all assets, liabilities, and life plans with the aim of delivering effective approaches for after-tax wealth preservation and performance. This means you may need to be more flexible and provide your wealthier clients with more sophisticated services, a wider range of strategies, and more detailed performance reports.

You also may want to work with a custodian that has a technology platform that is flexible enough to enable you to deliver this wide array of services.

### 5. The right pricing

Review your pricing because you could be pricing your service too low or too high. The key here is to

show that you’re providing the greatest value—not the cheapest price. So if you’re pricing your services too low, you may be giving the impression that your services don’t provide as much value. But we also know no one likes high fees (and you may be creating insurmountable service expectations with them). So the key is to find the sweet spot.

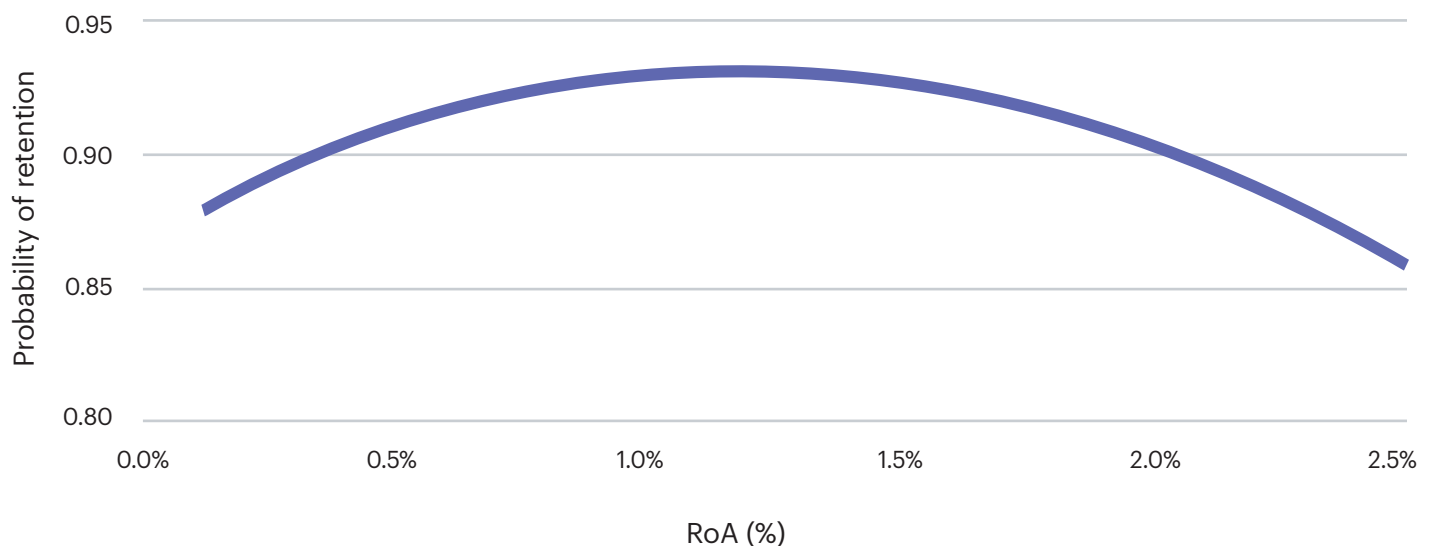
According to PriceMetrix, households that are priced relatively low (below 0.5% for overall RoA) or relatively high (above 2% for overall RoA) are less likely to be retained, and retention is highest in the 1–1.5% range.<sup>6</sup>

Use the data in the chart below as a guide, but not a hard rule. For example, you may be focused on a specific niche within the market or have a unique expertise, and that can command a premium. Ultimately, it’s about showing what the client is paying for.

<sup>5</sup> Source: EY Wealth Management Outlook, 2018

<sup>6</sup> Source: Stay or Stray: Putting Some Numbers Behind Client Retention, PriceMetrix, 2013

**Retention and revenue on assets (RoA)**



## How E\*TRADE Advisor Services can help you retain your clients

At E\*TRADE Advisor Services, we are committed to helping you develop lasting client relationships and empowering you to succeed as a financial advisor. These are just some of the ways we enable you to provide exceptional client service:

### HIGH EFFICIENCY

Our technology platform, Liberty, allows you to automate a number of back-office tasks, freeing you up to spend more time on client service.

### SIMPLIFIED INVESTMENT MANAGEMENT

We make managing investment models, strategies and portfolios easy. Our powerful trading technology enables you to customize investment models your way, using your trading philosophy and customized strategies to help match your clients' experience with their expectations.

### CLIENT-FACING MOBILE APP

We offer you the ability to create your own custom-branded Liberty mobile app, allowing your clients to monitor their portfolio performance on any device. It's a great way to provide more value to your clients and build stronger connections with them.

### ASSET-BASED CUSTODY FEES

We price our platform based on the assets your clients hold, not on transactions. There's nothing preventing you from keeping clients fully invested or rebalancing more frequently—while potentially lowering your trading costs. This cost-effective trading helps you find the sweet spot for your pricing model.

**At E\*TRADE Advisor Services, we never stop thinking of new ways to help you grow your business and truly serve your clients.**

**For more information, email [advisorservices@etrade.com](mailto:advisorservices@etrade.com), call 800-955-7808 or visit [etrade.com/advisorservices](http://etrade.com/advisorservices).**



© 2019 E\*TRADE Savings Bank, doing business as "E\*TRADE Advisor Services." Member FDIC. All rights reserved.

**Investment Products: Not FDIC Insured - No Bank Guarantee - May Lose Value.**

E\*TRADE, E\*TRADE Advisor Services, and Liberty are registered trademarks or trademarks of E\*TRADE Financial Corporation. All other trademarks mentioned herein are the property of their respective owners. Product and service offerings are subject to change without notice.

