US Advisors FINANCIAL GROUP

Lift, for Financial Services Providers

10 REASONS

WHY YOUR FINANCIAL INSTITUTION'S REFERRAL PROGRAM DOESN'T WORK!

There is not one financial institution in North America whose referral program is running on all cylinders!

Why is this one of the most financially devastating problems for financial institutions worldwide? Because of all the client acquisition strategies, referrals are the preponderant growth strategy. Out of the countless client acquisition strategies, cold calling is usually dead last. Conversely, referrals will account for 60-90% of new clients acquired.

After consulting hundreds of financial institutions (FI's) across North America, many FI's have one or two glaring problems. However, most have four or more problems identified in "10 Reasons Why Your Financial Institution's Referral Program Doesn't Work."

While there are typically many solutions, some of which will be identified, the first step to a successful referral program is identifying and understanding that problems exist and need to be fixed. So, let's start at the top…literally.

1. NO TOP DOWN SUPPORT

Successful referral programs do not start on a whim with a teller having an idea to start referring; it starts at the top. "The top" is the board of directors, CEO, President and the executive team. For a successful referral program to exist, the executive team must carefully lay out referral incentives, goals, tracking, training, communication, and delivery strategies.

Many executives announce that they are starting a referral program and then abdicate responsibility and accountability in order to move on to slay the next dragon. In his 1968 speech, Eldridge Cleaver, exclaimed, "If you are not part of the solution, you are part of the problem." Yes, the buck does stop here – at the top.

Many executives wonder why their program is not close to the benchmarking standards yet they, themselves, have not even given one referral. Leading by example is critical to a successful referral program. What are the referral goals of the Board, CEO, President and executive team? When was the last time the CEO/President/ branch manager asked an investment advisor to invite his/her top ten clients to their board room for lunch? Or, invited their top referrers to lunch?

The management technique of "managing by wandering around" works pretty well in connoting the importance of a referral initiative. "How many referrals have you had this week?" and "What additional help do you need to create five more referrals this week?" are great "wandering around" questions. The executive is gently informing the employee that the referral initiative is important and that they are welcome to make suggestions to help the employee reach their goals.

Elliot Hatico, retail executive at Hawaii State FCU, pointed out to his branch managers that new employees were generating significantly more referrals than employees with over ten years experience. Do you think the branch managers went back and communicated this fact to their veterans? Yes…and the referrals started to increase.

The important "key learning" is that the executive team has to be actively informed and involved in a comprehensive referral initiative.

2. UNCOORDINATED OR NON-EXISTENT REFERRAL TRAINING

We are all creatures of habit and without forming new habits employees will typically migrate to the tasks that they have mastered as those are the easiest and usually the lowest risk for them.

FI staff and executives do not want to initiate a conversation without knowing how to appropriately direct a referral opportunity and suffering embarrassment in front of their peers.

While training about the “how to refer” is critically important, equally important is the “why we have a referral program”. Without knowing the “why”, the purpose is lost. Many employees have no idea how their FI makes money or how taking a client’s money out of the FI and putting into another company could actually make the FI more profitable. Employees want to know how they can help, however, if their thought processes are contradictory to reality, your referrals will suffer. There is a training opportunity here on many levels. If referrals lead to sales and sales result in additional revenue to the FI, their referrals make the FI a stronger organization. An excellent referrer in a financially strong organization helps to ensure job security and promotion potential. It’s as ease as that. Employees understand that type of frank conversation.

Once the “Why” has been explained by senior management, the advisor should have an attentive audience to describe the “How” to refer. The key here is to keep the training sessions short, interesting, entertaining and engaging. Use real life examples, point out successful referrals by certain staff members while engaging them in the conversation. Role playing works very well here and keeps the audience engaged (be sure it is not a surprise role playing exercise – no one likes being caught off guard in front of their peers).

Usually, time is critical in branch settings, so 10-20 minute training sessions seem to work best. Better yet, one-on-one training sessions allow the trainer to train each individual at their current level of understanding and they can personally connect with the individual while potentially integrating their financial information as an example of how they work with clients.

Remember “who, what, when, where, why and how” in the training example. Stories or actual experiences are much more effective for an individual to understand than a data dump of technical jargon. A training session regarding income replacement needs (life/disability insurance) will have a different approach than retirement plan rollovers. Lay it out on a platter so it could be understood by a high school student. The main objective should be how to enter the conversation (looking for cues and clues), identify a need and point them to a solution within the FI.

Consider using promotions to make it easier for staff to enter into the conversation. James Ganger, national sales manager at USAdvisors Network, recently started a “You Must Know Jeremy” initiative at University of WI CU in Madison, WI, complete with buttons, standards, etc. Members would ask the staff who Jeremy was, leading to a quick conversation and potential referral. Alternatively, if a member deposited a large check, the teller would respond, “You must know Jeremy” and then explain how Jeremy could help them better understand the financial options that are available to them regarding the check they brought in and more.

W. Jillian Link, an advisor with Spire FCU in the Twin Cities addresses the tellers as “Window Goddesses”. She bought them all tiaras and cupcakes for one of her monthly training sessions at the branch. In other words, keep it fun yet concise, mix up the subject matter, use actual case studies, involve others and their opinions and by all means, do not wing it. The presenter must practice just like it was a presentation in front of 100 potential clients, because they may ultimately end up with 100 new clients if they connect with their team and the message resonates with them.

3. LACK OF COMMUNICATION

Paul Newman, in the 1967 blockbuster film, “Cool Hand Luke” stated, “What we have here is a failure to communicate.”

A universal communication plan must be established by management from the onset of the referral program and continually reinforced.

Managers across the nation have heard from Susie Teller, “I have no idea what happened to the Frank Jones referral that I gave to Betty Advisor.” Here is an example of what happens next time Frank comes to Susie’s window….

1-Susie doesn’t know the referral status and is wondering if Betty even called Frank.
2-Frank wonders

- a. why Susie is out of the loop
- b. why didn’t Betty follow up with him like Susie mentioned she would do
- c. What kind of organization is this? They don’t even communicate with each other.
- d. all of the above

It’s no wonder Susie’s referrals have dropped significantly. She would much rather go about her job as a teller without suffering the embarrassing client encounter due to a poor communication plan in place.

Let’s face it, sticky notes, sheets of paper carried through the inter-office mail and even CRM’s are antiquated tools in this multi-faceted, referral-rich environment. While CRM’s are often the FI’s “mode of choice” they are cumbersome for Susie to find the status of her referral of Frank to Betty. First we have to assume that there is good sorting functionality, a proper subject line in the header to open and then hope that Betty actually entered something into the Frank’s contact record.

It is important that Susie has the ability to know “just in time” or through a quick search the status of Betty’s activity with Frank. This means that Betty’s diligence to reporting attempted calls, messages left, appointments, etc. with Frank is required.

How does management easily check up to determine Frank’s referral status or if their communication standards are adhered to? If they are using any of the popular methods, they cannot easily perform this function. The recommended approach is to use referral specific software incorporating the latest cloud technology. An example of a robust referral software tool would be found under www.referral-pod.com .

It is important for management to adopt a standardized referral communication system that is so easy to employ that it is almost an after thought. Who gets communicated to, about what, how often and in what fashion? That being said, management better have a quick and simple way to sort through their system to identify who is not playing by the rules. If people know their activities are not followed up by management, they probably won't follow up either.

4. NO GOALS

If you aim for nothing in life, you'll probably hit it.

The first step is to assess whether or not you have an established sales culture in your organization. If not, goals should reflect the ability of individuals to attain their desired achievement under the current environment 50% of the time. Add another 20-40% to that goal and you have their "stretch goal".

You can have a bottom-up goal calculation or a top-down goal calculation. The recommended method is to set goals by position for <u>every</u> position in the FI. You will then be able to easily and accurately assess and communicate your branch, region and organization goals.

There will always be push back that someone does not have client interaction and therefore their need to be excluded from the referral program. Remember, a chain is as strong as its weakest link. The goal is to grow the organization and that means everyone has a role in the client acquisition strategy. The shining stars in the "but I don't have client interaction" section are there and will shine.

Consider using industry benchmarks for your referral goals. Kehrer/LIMRA has some good statistics in their benchmarking publications. This is actual data from different types and sizes of organizations. When all of the ideas from this white paper are properly employed, it will be realistic to assume 40-50 referrals/$100M in deposits/month.

Consider the acronym for setting goals – SMART!

Specific | Measurable | Accountable | Realistic | Time Bound

Ensure that the referral program and corresponding goal(s) have been properly communicated to all employees. More importantly, ensure all employees have been properly trained regarding how to initiate a fact-finding conversation and solicit a referral.

5. NOT EMPLOYING A COACH

Referral coaches are worth their weight in gold in terms of the implementation of this strategy. When connecting with clients, the approach, timing and tone are critical to success. Climbing another step of the client acquisition ladder is attained by communicating to clients and centers of influence the characteristics of your "ideal client." Additionally, when forming and meeting with a center of influence team, the process and accountability that an experienced referral coach can bring to the table will pay for itself many times over.

An effective referral coaching program should help the advisor with:

- Understanding the power of conveying "what business they are really in."
- Understanding the psychology of why people refer.
- How to position referrals as a service; and how to never appear needy.

- Understand that referrals do not happen until you deserve them.
- Understanding the power of a dedicated "introduction process."
- Uncovering new assets.
- Building competitor-proof, fiercely loyal advocates.
- Establish a steady stream of referrals.

One of the premier coaching firms, Pareto Systems, is so confident in its coaching and systems that it offers a 100% money-back guarantee if the advisor or financial institution does not earn more through implementing the coaching techniques than the coaching expense itself. Duncan MacPherson, co-CEO of Pareto Systems and author of "*Breakthrough Business Development*", states, "Many financial advisors have told us that they are uncomfortable asking for referrals. We believe that this 'discomfort' is exactly what is wrong with 95% of referral strategies. More than ever, people are looking for financial professionals that they can trust. A referral coaching program should be designed to create long-term relationships based on trust with your best clients."

A proactive, well coached team will be much more successful than the team that is sitting in their office waiting for business to walk through the door. When everyone takes care of their share of the referral process, everyone wins.

Remember, referrals are a contact sport! So, train accordingly.

6. ADVISOR APATHY AND ATTITUDE (NOT BEING REFERRABLE)

Your attitude determines your altitude! This statement applies in more ways than one.

An attitude indicator is the most important instrument in a plane. It measures your current flight status. Check: Wings level or banking; descending, ascending or level flight? A quick scan of the attitude indicator will tell the pilot if they are in level flight.

Every pilot has a checklist; it is recommended that every advisor have their own checklist as well.

An advisor's attitude toward clients, FI staff and executives will certainly determine their success (altitude). The checklist should start right when an advisor drives into the FI parking lot. An advisor recently left an FI in Hawaii due to lack of referrals. The only time he spent in the branch was for client appointments. He spent little time training the branch staff or getting to know them personally. When he arrived he parked his Porsche in the client parking lot while the rest of the staff had to walk several blocks from the employee parking lot. And he wondered why he wasn't getting many referrals.

Another advisor, recently fired from a credit union in Madison, WI, parked his Mercedes next to the President's parking space and took his smoking breaks outside the main entrance. The advisor couldn't understand why the executives and staff couldn't connect with him.

Attitudes should be checked at the door. A team is always more productive than a group of individuals. Advisors should:

- Attend company/community events
- Be an ambassador outside of the FI
- Attend staff and manager meetings
- Attend annual customer/member meetings

- Assist in projects outside your “job description”, and more…….

USAdvisors Network, a broker/dealer and financial institution consultancy firm, requires new advisors to sign a “Service Expectations Agreement” upon entry to a financial institution relationship. Consider a summary of the categories under this agreement:

- **Image/Perception:**
  Appearance of representatives.
- **Reliability:**
  Ability to perform promised service dependably and accurately.
- **Responsiveness:**
  Willingness to provide prompt and punctual service.
- **Security:**
  Freedom from risk, doubt, loss or theft
- **Access:**
  Approachability and ease of contact
- **Communication:**
  Listening to clients and acknowledging their comments. Keeping clients informed in a language they can understand.
- **Understanding the Client:**
  Making the effort to know clients and their needs.

Manage expectations from the beginning of the relationship and holding advisors accountable for their actions is critical for continued “referrability”.

7. CONFLICTING GOALS OR PROJECTS

When goals or projects are not aligned, unintended consequences often arise. A large San Diego based credit union had an abysmal referral track record that emanated from a deposit goal. The branch managers felt that any referral to the investment department would cause the member to move money out of their accounts thereby reducing the probability of reaching the deposit goal. A simple solution of adding the investment department’s new investment dollars to the deposit equation solved the referral problem.

A frequently measured financial institution benchmark is products/household. Unfortunately, it is very common for banks to omit investment and insurance products in this measurement tool. Client retention increases dramatically with more products/services in the hands of the client. Investment and insurance products certainly add to this retention rate and should be part of the equation.

New employee orientation often excludes or minimizes the benefits of the investment and insurance departments. Often employees have no idea how this department’s services add to the bank’s bottom line. Investments and insurance should be a “must” in every training syllabus.

The objective here is to ensure that one analyzes the current projects and goals in place at the financial institution and determine how well they are aligned with the investment and insurance initiatives.

8. LACK OF A COMPREHENSIVE TRACKING AND REPORTING SYSTEM

"If you can't measure it, you can't manage it."

Many studies indicate that referrals are the life-blood of the client acquisition process. It is staggering to find that few, if any, financial institutions have a method to track internal and external referrals. An effective tracking system should encompass the three areas referrals are generated:

- Internal (cross-referrals from fellow employees)
- Customer referrals
- Center of Influence (COI) referrals (attorneys, accountants, realtors, etc.)

Tracking is frequently done manually or possibly using an Excel spreadsheet for internal referrals. Customer Relationship Management (CRM) software can sometimes be modified to track internal referrals, however, they are difficult to use and fall short when accounting for COI and customer referrals.

When comprehensive tracking and reporting is not employed, referrals suffer. If people are not held accountable for their referral goals and if periodic reporting is not part of their referral program, it is difficult to achieve success. It is important to identify your referral champions and publically reward them. Additionally, these champions are often wonderful referral coaches for your employees.

A comprehensive referral program should allow you to easily identify, filter and measure the following items:

- Product Categories
- Individual Products
- Individuals/Departments/Branches/Regions/Entire Organization
- Date Ranges
- Amounts
- Referral Status

Ideally, customized reports should be created and disseminated on a regular basis. These reports should be tied to individual, department, branch and organization goals. "Inspect what you expect."

9. LACK OF FOLLOW-THROUGH

When an employee finds out from the referred customer that nobody followed up with them after the referral, it negatively reflects on that employee and the organization. Referral activity will decrease if employees do not believe that prompt and professional response will occur.

One of the main problems is how the referral is communicated and its status is tracked. Notes can get lost, conversations can be forgotten. When referrals are generated, they need to be communicated via email through a referral system. Organization standards need to be employed regarding the manner, response time, frequency, status and communication of a referral.

If there is no response from the prospect after a predefined number of attempts, the organization should require the referror call the prospect to reassess the need of the prospect. Success will depend on how tight the referral chain is and how easy it is to identify where the links tend to break.

10.RELYING SOLELY ON INTERNAL (WALK-IN) REFERRALS

Internet and drive-through banking has taken the customers out of the branches. A referral program needs to be multi-faceted in order to penetrate the entire customer base and the potential clients outside of the banking system.

While internal referrals should be a financial advisor's #1 referral source, it is important to plant seeds elsewhere to cultivate when internal referrals dramatically decrease due to branch traffic patterns, conflicting goals (increased internal deposit goals), and client flight to safety, etc.

The two top client acquisition strategies for retail financial advisors are referrals. Referrals account for up to 80% of new clients - #1 from existing clients, #2 from centers of influence. It's time that FI advisors look to the success of their peers and adopt diversified referral sources. Ultimately, when these referral avenues are explored, the FI will see much more cross-referrals from the advisor for the more traditional banking products and services. Michael Goldberg, CSP and CEO of Building Blocks Consulting states, "Networking is all about giving - information, insight, direction, referrals. When you give to quality people, they tend to give right back."

Referral networking groups should be established for those individuals that can tap into COI's. A financial advisor should consider having these professions in their referral network(s):

- Financial Institution Executive(s)
- Mortgage Loan Officer
- Realtor
- Appraiser
- Attorney(s)
- Accountant(s)
- Property-casualty Agent
- "Ideal" Client(s)/Advocates
- Business Leaders

The networking group should be able to track, communicate and report referrals through an online referral system. Software systems today are able to track both internal and external referrals while adhering to privacy and security issues. Operating procedures such as, meeting agendas, referral expectations, consequences for lack of participation, etc. should be developed by the group. Purposeful meetings should occur on at least a quarterly basis. Thoughtful selection of the participants in the referral group is critical to maximize potential referrals.

It is important for clients to know that the bank welcomes referrals. Current clients should be able to refer their friends and associates directly or through the bank's internet referral network system. Being able to track and communicate the results of these referrals is important. Software is available that integrates with the bank's referral tracking system by assigning each participant a separate URL that their client can utilize to make a direct referral to the employee.

Be diligent about collecting emails as this is now an effective marketing tool. Demographic marketing can often be employed making this an inexpensive, targeted communication method. Again a separate URL can be assigned to a hyperlink or icon residing on the bank's website. With this technology, the effectiveness of referral initiatives can be inexpensively tested throughout various demographic groups.

Finally, do not forget the drive-through referral systems. While this is often a quick transaction, thought should be given as to how to quickly engage the customer into considering additional products and services provided by the bank.

In Huntsville, AL, Redstone FCU averaged over 50 referrals/$100M in deposits/month for their investment program by integrating the drive-through referral system as one of their referral strategies. A referral slip, indicating a panoply of credit union products, was inserted into the drive-through tube so that when the member arrived, they were prompted to review the list while their transaction was completed and check any product or service where they desired additional information.

Reaching beyond the traditional "walk-in" traffic referral system is critical for referral growth and ultimately new business. When coupled with goals, communication and measured results a referral program's success will dramatically exceed present expectations!

10.5 NOT KEEPING IT FRESH

Change up your referral system to keep it fresh, interesting, challenging, stimulating and even exciting.

While money is frequently the most common form of compensation in referral systems, many other forms may stimulate the same result. Consider the following:

- Casual day/week for the winning team/individual
- President's parking spot for a week
- Birthday vacation day
- Feature article in the employee newsletter
- $X to donate to a charity of choice
- Dinner/lunch with the President/CEO/Chairman of the Board
- Movie tickets, gift cards, etc.
- Flowers to be sent to their favorite person/client/employee on their behalf
- Maid for a day, and more…

Also consider adding incentives during the slow referral months of the summer or December. This could include doubling their cash incentive or one of the many options stated above.

Splitting the branches or departments into teams works effectively to get those competitive juices flowing and creating some friendly competition. When the contest is tied to a sporting event such as the Olympics, World Series, March Madness, etc, the competition can be more relevant and fun.

The important point is to keep people engaged by mixing it up, encouraging competition and making it fun for everyone. People want to work for an organization that has fun and they want to refer others to an organization that has fun.

IN CONCLUSION:

While there are many reasons a referral program is not successful:

- ✓ **No Top-Down Support**
- ✓ **An Uncoordinated or Non-Existent Referral Training Program.**
- ✓ **Lack of Communication**
- ✓ **No Goals**
- ✓ **Not Employing a Coach**
- ✓ **Advisor Apathy and Attitude.**
- ✓ **Conflicting Goals or Projects**
- ✓ **Lack of a Comprehensive Tracking and Reporting System**
- ✓ **Lack of Follow-Through**
- ✓ **Relying Solely on Internal (Walk-In) Referrals**
- ✓ **Not Keeping it Fresh**

The important message is to start identifying what is not working and why. Build your message, team and plan. Employ resources and software to track, communicate and report frequently. Finally, have fun!!!

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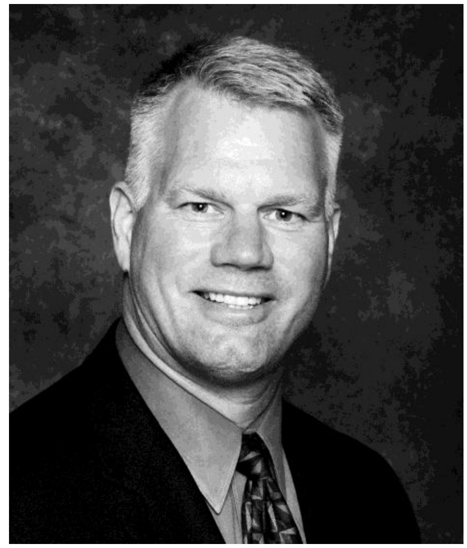
He co-authored Sheshunoff's "Community Banker's Guide to Non-Traditional Banking Services". Nathan has been a columnist for Senior Citizens News and Views and has written for the Minneapolis Star Tribune. He has been invited to discuss economic issues on KMSP's local nightly news and on Minnesota Public Radio. Nathan has been featured in numerous national magazines including "Financial Planning", "Credit Union Times", "Financial Services Week", “Investment News”, “On Wall Street”, “Bank Investment Consultant”, "Bankers News" and more.



Nathan holds a Bachelor of Arts degree in Economics from Saint Olaf College in Northfield, Minnesota, and earned the designation of Certified Financial Planner and a Master's of Science from the College for Financial Planning in Denver, Colorado. He was a First Team All-American, tried out for the MN Vikings and Atlanta Falcons in football and eventually inducted into the Hall of Fame at Saint Olaf.

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