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The Single Best Way to Grow Share of Wallet and the Primacy Premium

Other Key Factors Include New Asset Breakpoint, Consumer Trust, Attitudes to Leaving Money in Employer-Sponsored Retirement Plans

(October 13, 2021, Rye, NY) –The best way for a financial services firm to grow customer share of wallet (SOW) is to be the main source of retirement advice, according to new report on main drivers of share of wallet by **Hearts & Wallets**, the market research and benchmarking firm that specializes in consumer saving, investing and financial advice.

Drivers of Share of Wallet: The Primacy Premium and the Connection to Retirement Advice identifies key influences on share of wallet, or the percent of assets a consumer has with a financial service relationship, and the actions firms can take to deepen relationships with existing customers and acquire new customers. The research mines Hearts & Wallets extensive databases, applying a decision tree analysis of over 10,000 customer relationships across the financial services industry to identify factors with the greatest influence on SOW. The research uses three models, which increase in sophistication and build from consumer demographics to include consumer attitudes and competitive data, to understand where consumers put their money.

Primacy Premium

Most consumers within all wealth levels have most of their money at one relationship, or their primary firm. This primacy premium jumped in the past year, standing at 79% average SOW for the primary firm, up 14 percentage points from 2010, as customers rewarded their primary firms with COVID-19 savings. Average SOW at secondary firms (where the customer's second-most amount of money is kept) is lower, ranging from 20 to 25%. Third firm average SOW ranges from under 10% to 15%.

Consumers with higher assets have lower SOW at their primary firms, as they spread their wallet across more firms. Wealthier consumers often do business with 4 or more firms in contrast to lower-asset consumers, who have fewer relationships and higher SOW at primary firms. The research identifies a new asset breakpoint for share of wallet at $375,000. Households with over $375,000 have lower SOW at their primary, secondary and third relationships.

"Wealth management firms should develop service models that recognize the reality of the multiple-firm environment," Laura Varas, CEO and founder of Hearts & Wallets, said. "Service separate from custody is here and will require new pricing, technology, business models and field roles."

Main Source of Retirement Advice

The decision tree analysis identifies the main driver of share of wallet as being the main source of retirement advice (MSRA). Predicted share of wallet for a firm that is the main source of retirement advice is 72% vs. 28% for firms that are not.

Primacy and Key Factors to Grow Share of Wallet/2

Firms at around the 50% mark or higher as being the main source of retirement advice for their customers include **Ameriprise**, **Edward Jones**, Morgan Stanley (NYSE: MS), **Fidelity**, Wells Fargo Advisors (NYSE: WFC) and Merrill Lynch (NYSE: BAC). Currently 24 million consumers do not have an MSRA. Non-MSRA consumers may seem like an opportunity, but they are less attractive to many firms, pointing to why advice improvement is a better path to enhance SOW.

Attitudes About Workplace Plans and SOW

As models within the decision tree analysis become increasingly sophisticated, consumer trust in a financial relationship and "understanding how the firm earns money," are both predictive of share of wallet. Another factor also emerges as predictive, consumer comfort with leaving money in former employer-sponsored retirement plans (ESRPs).

Predicted SOW is higher for consumers who are uncomfortable leaving money in former ESRPs. Nationally, many households express reservations about leaving money in former ESRPs. 1 in 5 households (21%) very strongly agree they do not want to leave money in a former ESRP (1 on 10-point scale) with 1 in 3 households expressing some level of being uncomfortable, (1-3 on 10-point scale), and 46% are on the fence (4-7 on 10-point scale). One reason driving rollovers: older consumers in Hearts & Wallets qualitative research say workplace plans often lack personalized guidance on human capital, real estate and tax optimization, often advice that is limited within plan because of regulatory strictures.

Current Secure Act 2.0 draft legislation includes proposals for 401(k) auto-enrollment for most employers, employer contributions based on student loan payments, removal of qualified longevity annuity contract caps, and other potential enhancements.

"Regulation creates a more restrictive environment for workplace advice than retail advice, despite workplace assets often being a significant portion of a household's wealth," John Towle, Chief Client Officer, said. "Current legislation is an opportunity for the industry to weigh in on how to cut some of the regulatory strings that limit workplace advice."

The report contains the full analysis of share of wallet drivers and predicted SOW for different consumer groups.

Methodology

The *Drivers of Share of Wallet: The Primacy Premium and the Connection to Retirement Advice* advanced analytics report uses sophisticated decision tree analysis to identify key factors that can help financial services firms to grow their share of wallet. The research draws upon the Hearts & Wallets Investor Quantitative™ Database (IQ Database), recognized as the largest single dataset with over 100 million data points on consumer buying patterns from 60,000 U.S. households. The latest survey wave was fielded in August 2020 and includes 5,920 participants.

About Hearts & Wallets

Hearts & Wallets is the market research and benchmarking firm that specializes in how consumers save, invest and seek financial advice. Leading firms rely upon Hearts & Wallets thought-leadership reports, software and benchmarking to make their saving, investing and advice solutions more consumer-centric. For more information visit www.heartsandwallets.com.

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