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Marketing of trusts: Distinguishing trusts from other financial services

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MARKETING OF TRUSTS:
DISTINGUISHING TRUSTS FROM OTHER FINANCIAL SERVICES

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CHAPTER 1

INTRODUCTION

Purpose

The purposes of this paper are to distinguish trust companies from other financial service companies; describe the current financial environment; and offer recommendations to increase the effectiveness of marketing trust services. Environmental factors and components critical to the success of the business are addressed. These factors range from changes in the financial service industry to changes in competition, customer demands, and government regulation. Trust companies are faced with the same challenges as most service related businesses. These include customer identification, market segmentation, product selection, marketing and advertising, and pricing policies. This paper discusses these challenges as they affect the trust industry.

Scope

The paper presents a brief background of trusts, how they evolved to their present state, and their current position in the financial service industry. The main thrust of the paper is based on activities in the financial service industry during the 1980s. There are occasional references to relevant events occurring prior to the 1980s. These references are used to support statements and provide the reader with a better understanding of the current environment.

Personal trusts are the primary focus of this paper. Other trust services are discussed to differentiate the trust company from other financial service companies. Among these other services are agency agreements, estate and tax planning, and investment and cash management.

Limitations

This paper is based on articles, personal experience, and reference books dealing with the financial service industry. Most emphasis is placed on articles in professional journals relating to trusts. Many of the authors were writing of their experiences in the changing financial service arena and, thus, could be biased. This paper utilizes these individual experiences to support the need to differentiate trust companies from competing financial services.

Since the trust industry is such a specialized field, many of the articles are from a single professional journal, Trusts and Estates. This journal offers a forum for trust professionals to provide information and solutions to environmental changes in the trust business. Even though a majority of the articles cited are from this journal, the authors and their views are quite varied.

Description of the Topic

Trust companies are an established part of the financial service industry, albeit one that is not generally well-known. In the past, trust companies provided services primarily to older clients and the very affluent. Personal, professional service became the benchmark of the trust company.

The environment in the financial service industry has changed. Trust companies must now compete with insurance companies, investment managers, and even banks. All of these competitors contend that they, too, provide personal, professional service. Customers have many more financial alternatives from which to choose, but have also become very confused by the sheer number of services available. If a trust company and the services it provides can be distinguished from the competition, customers will be better prepared to select the right alternatives for their situations.

Background of Trusts

A trust is "a fiduciary relationship in which one person is the holder of the title to property subject to an equitable obligation to keep or use the property for the benefit of another person."[1]

Trusts date back to the fourteenth century in England. There were many wars during this period. Soldiers who went to war would convey their land to another individual to manage while they were away. The soldier's children would benefit from the continued management of the land.

Trust companies and their services became popular in the United States during the 1800s. The economy was shifting from an agricultural base to an industrial base. In an economy based in agriculture, an individual's main asset was the farm. When the owner of the farm died, the property passed directly to his heirs. An economy based on industrialization required the use of intangible assets such as stocks and bonds. These assets required special attention and re-registration. An individual not familiar with the transfer of these assets benefitted from an administrator to properly complete this process.

Investing in factories required large influxes of capital. Most individuals could not raise the required capital on their own. Groups of individuals would pool their funds in a "trust" to raise the required capital to finance the new projects. As individual members of these trusts became wealthier, the importance of protecting their

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[1]Edwin McInnis, Trust Functions and Services (Washington D.C.: American Institute of Banking, 1976), 137.

legacies and providing for their heirs increased. Also, as the companies became more successful, the need for a smooth transition to the next generation became more important. As a result, trust companies amended their charters to include holding and investing property for their clients.

Types of Personal Trusts

Personal trusts can be broken down into two major categories: trusts under will and trusts under agreement.

Trusts under will are created by the owner through a will. Upon the death of the creator, an estate is established to distribute any real property, make bequests, and pay any outstanding bills of the deceased. When the estate has fulfilled these obligations, the remainder of the assets are transferred to a trustee to manage for the benefit of individuals or organizations named in the will. The trust is not activated until the estate is closed and the distribution to the trustee is ordered by the court.

All trusts under will are irrevocable after they have been activated. This means that the trust cannot be terminated except as specified in the terms of the agreement. Usually termination will occur when a beneficiary reaches a certain age as noted in the agreement.

The trustee is responsible to the courts for administration of a trust under will. Since the creator of the agreement is deceased, the court must oversee the trustee's actions in fulfilling the obligations agreed to in the instrument.

Trusts under will are created for many different reasons. They are created to relieve the beneficiaries from the responsibility of managing the assets left by the deceased, to provide for education and other general needs of the spouse and children, and to provide for minors without instituting other legal methods of transferring property. The trust under will provides specific instructions to the trustee to fulfill the requirements of the deceased.

The trust under agreement, also called a living trust, is an agreement between the trustor (creator) and the trustee. The title of the property is conveyed from the trustor to the trustee. This type of trust can be for the benefit of the trustor or another named beneficiary. The trust under agreement can be either revocable or irrevocable during the life of the trustor. A revocable trust allows the trustor to terminate the agreement at any time during his lifetime. When the trustor dies, the trust automatically becomes irrevocable and the provisions of the trust will be executed as specifically noted in the agreement.

Trustors can remain anonymous and provide financial help for education, health, and general support to specified beneficiaries. This can be very important in trying to help individuals in need without making them feel they are receiving welfare. Trusts can be utilized for those individuals who do not have any investment or cash management experience. A trust can be a very important management tool for beneficiaries of estates who receive large inheritances.

The trust under agreement provides a number of benefits.

1. Confidentiality. The trust under agreement is a confidential document. The manner in which the trustor chooses to distribute assets is not subject to public scrutiny.
2. Exclusion from Probate Estate. Assets set up in a trust are not part of a probate estate. In general, attorney's fees are calculated on the value of the probate estate. Assets that are part of a trust under agreement are not included in this calculation.
3. Continued Flow of Income. Trusts under agreement can provide for an undisturbed flow of income to beneficiaries after the trustor's death. The agreement directs the trustee on the distribution of income and principal without waiting for the estate to be probated.

Other Services

Corporate trustees are utilized for their expertise in investments and administration. Trusts provide trustors with more time to work in their professional and personal activities by eliminating the record keeping responsibilities. Transactions are recorded and consolidated in detailed statements. Also, the trustee can provide financial planning to meet an individual's specific goals.

Other services corporate trustees provide include the use of agency agreements. The agency is used mainly as an investment vehicle. The title of the assets managed by the agent (trust company) remains with the owner. The trust company has the authority to provide investment advice and execute investment decisions according to the objectives set out by the owner.

Corporate trustees provide estate services. They can be named as personal representatives in an estate and execute the duties required with that title. These duties include securing all of the assets of the deceased, providing for obligations of the deceased (when funds are available), executing all of the legal documents required in estate administration, estate tax return preparation, and distribution of the assets.

Prior to the death of their clients the trust company can provide estate planning services. These services not only minimize estate taxes, but also help clients obtain the financial objectives they wish. These can be short term objectives such as purchasing personal items or long term planning to provide for a child's education and for their own retirement. These financial planning services are also offered by many of the new competitors in the financial services industry.

CHAPTER 2

FACTORS AFFECTING TRUSTS

There are many factors affecting the financial services industry and trust companies. The trust industry itself is changing. Trust companies have automated many of their services, they are trying to reach more diverse clients, and are aggressively seeking new business.

There are more financially related businesses than in the past. Companies that were not direct competitors are now offering some of the same services as trust companies. Insurance companies, financial planners, and banks are now offering investment vehicles similar to those offered by trust companies.

The customer is more informed than previously. There is much more information available for potential clients to utilize in comparing financial services. Government and professional journals provide more insight into the trends and laws affecting this industry. For example, The Wall Street Journal reports on tax law changes, economic factors affecting the different facets of the financial industry, and news specific to alternative services.

Also, government regulations and tax laws are subject to more frequent and drastic modifications. The lawmakers now look at the Internal Revenue Code as a means of increasing revenues on a piecemeal basis. In the past, the Code was altered after a thorough research of trends and careful consideration of the ramifications of the change.

Changes in the Trust Industry

For many years the wealthy individual ($100,000 in annual household income or $500,000 in assets)[2] has been the primary client of trust companies. These customers expected personal service and investment expertise from the trust officer. They established a long term relationship with the trust company. They came to rely upon the trust officer for advice and information to help them through the many problems and situations they faced during their lifetimes. The different services the trust company provided were available when the need arose. Those services ranged from investment advice to estate and financial planning.

The following changes have affected the trust industry dramatically:

1. Demand. Demand for financial services has increased, due to the increased number of individuals in the age group that are in the income accumulation years. (Demographics)
2. Competition. Competition in the financial services industry has increased.

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[2] American Bankers Association, Synergy in Banking in the 1980's (Washington D.C.: American Bankers Association, 1982), 230.

3. <u>Deregulation.</u> Government has deregulated the financial services industry.
4. <u>Society.</u> Society has become more litigious.

During the recent past, demand for financial services has increased. People have become sensitive to their own financial security. Consequently, they have turned to professionals to provide them with the expertise they feel is needed for their particular situation. This demand has resulted in an increase in the number of people or businesses offering financial services. Many of these new financial planners have had little or no financial training and have many varied backgrounds. Businesses that were not thought of as financial services companies in the early 1970s have expanded their lines to include finance related products to take advantage of the demand. Some examples of companies now providing financial services are insurance companies, special interest associations, and unions.

Due to the increased number of companies offering financial services, the American Bankers Association-Trust Division laid out its objectives for the 1980s.

1. Broaden the lines of business in which trusts are involved.
2. Increase profitability through automation.
3. Increase management skills development of the trust officer.

4. Identify major public policy issues that affect the trust business and its clients.
5. Communicate more effectively with bank management, lawmakers, and the customer.

Trust companies have provided the products needed to help clients through the different stages of their lives. The ABA Trust Division objectives refer to increasing the scope of the existing trust products. This would include offering financial planning to customers who are not just in need of estate planning for tax purposes. New customers that have never had a financial inventory done may be willing to increase the size of their account once a plan and goals are established. Planning should be an ongoing process to help customers identify potential requirements and needs; including emergencies, children's education, and health related expenditures of clients. The financial plan should be comprehensive, with the trust officer acting as liaison between clients and other professionals such as accountants, attorneys, and insurance agents.

With the passage of deregulation legislation in the banking industry, banks and trust companies have had to become more competitive. They have had to adjust product lines to reflect customer needs, price their products competitively, advertise their products, and actively seek out customers.

Trust companies have also had to become more profitable rather than being a "loss-leader," or a service that banks must provide in order to be called a "full-service bank." Two of the ways profits can be increased are by increasing revenues and cutting expenses. Many financial institutions have increased revenues by unbundling fees. Unbundling fees refers to trust companies' charging for specific services, e.g. tax services. In the past, most services were included in the annual management fee. Now that there is more competition, specific service charges are levied.

The other way to increase profitability is to cut expenses. Automation has been instrumental in providing a higher quality product to customers and furnishing the trust officer with important reports and information with which to handle accounts more efficiently. Even though computer expense can be substantial, in most cases it is offset by lower personnel costs.

It is more important than ever to have highly trained employees. The requirement to be profitable and pressure from a litigious society give training a much higher priority than in the past. Training includes guidance in sales and marketing in addition to technical instruction. More emphasis is being placed on sales and new business due to the increased competition. It is important that support staff be included in the training effort. Administrative assistants need to understand basic trust and banking products, know how to complete paperwork efficiently, and provide support for the trust officer. Providing administrative support will enable the trust officer to spend more time generating new business and administering existing accounts than on detail work.

The industry is responsible for getting the right information out to lawmakers. Lobbies are used to ensure that the ramifications of potential bills are brought to the attention of congressmen. Lawmakers need to be made aware of inequities which would allow one competitor in the financial service industry to have an unfair advantage.

Communication between the employees of the trust company and bank management is important. Many referrals are made from the bank staff. The bank management must be made aware of the services that trusts provide. In most cases trusts are not interested in the smaller checking and savings accounts of their customers, but instead in non-bank deposits, i.e. stocks and bonds. Once the bank employees are made aware of this fact, they should become more of an ally than an adversary.

Effective communication is a critical factor in selling products and services to trust customers. Since there are many more options available to potential customers (e.g. money market accounts or special investment vehicles), a high profile is required. Many people are not aware of the services a trust company provides. Offering educational and informational seminars to different organizations and groups will augment other forms of communication.

Attitudinal Changes by Management

"Organizations are a reflection of the leadership they receive."[3] Because of the many types of changes occurring in the financial services industry, managers of trust companies have had to make critical decisions affecting the future of their companies. These decisions relate not only to how to increase revenues and decrease costs, but also whether to stay their current course or to diversify.

The main issues facing management of trust companies are these:

1. Profitability. Trusts are a very labor intensive service requiring substantial attention to help clients. Prior to deregulation, this service was provided even though the fees generated in relation to time spent were not proportional. After deregulation, management focus changed and trusts were required to adjust their fees to increase profitability.
2. Training. The main product of a trust company is service. Personnel must be professional and well-trained in order to compete.

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[3]Leonard L. Berry, "Bank Trust Departments-Where to Now?" The Bankers Magazine, Jan/Feb 1979, 19-24.

3. Marketing. To be an efficient organization is not enough. Marketing should become an integral part of daily decision making in addition to long-term management decisions.

4. Strategic Planning. Managers should recognize that they can not limit their clientele to the very wealthy. The changing demographics underscore the need to adjust strategic planning and customer relationships.

5. Image. Managers are faced with the decision of whether to actively portray a new image or to accept the current image and the clientele it attracts. Currently, when people think of trust companies, they think of estates, older customers, and very conservative employees.

> The image is one of being centered around the very elderly, very wealthy person in the final stages of life ... who is in need of a department's trust capabilities. Added to this image is an aura of old-fashioned stodginess and ultra-conservatism associated with the trust department generally.[4]

Regardless of management's selection, between trying to create a new image or maintaining their current image, the image of the trust company must be galvanized in the customer's mind.

One of the more important considerations facing management is knowing the customer's needs. Marketing research has increased in importance because of the need to know who

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[4]Craig Madsen, "Reappraising the Marketing of Trust Services," Trusts and Estates, (November 1981): 11.

is seeking the services of a trust company. Trust management is treating the market as being segmented because it realizes the services a trust company provides are not needed by everyone. The goal of market segmentation is to help the company identify the group most interested in its services. This process can increase the effectiveness of the company's advertising dollar.

One of management's key objectives is to identify a desired image for the company.

> Foremost, the (trust) department must project an image of stability and consistency. The challenge and opportunity are both created by the stable image. The bank (trust department) needs to be viewed as a source of sound management and business practices. Conservative or aggressive images are appropriate in different situations.[5]

The importance of maintaining a sound image can work to the advantage of management. There are many different businesses entering the financial services industry offering alternatives to trust companies. Now more than previously, the trust company must let potential clients know the services it provides.

Because of the increased competition, management must train its employees to be more aggressive. The employee must know the different facets of the sales process. Due to the nature of the trust business, trust employees should be familiar with giving personal service. The important

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[5]Harold Bell, "Financial Planning Provides Expansion for Trust Services," Interview, Trusts and Estates, (December 1985): 25.

element is to close the sale and to bring in the new business.

Relationships With Banks

Trust companies and the banks with which they are affiliated stand to gain from positive relationships. (Affiliation refers to the bank and the trust company being part of the same corporation or holding company, but are separate entities within the corporation.) Relationship banking is the idea of turning an indifferent customer into a loyal multiple-service client.

> Relationship banking concerns viewing customers as clients, emphasizes client retention and client improvement as much as new client acquisition, and focuses on the satisfaction of total financial service needs rather than on bits and pieces of a need.[6]

In the past, banks and trust companies have provided different services to their clients. Deregulation has changed the industry by allowing banks to provide more investment alternatives. Checking and savings accounts that offer interest, certificates of deposit with competitive interest rates, and discount brokerage services are some of the products now being offered by banks.

Currently, banks and trust companies compete for some of the same business. The relationships of the past of working together to help customers with their personal

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[6]Leonard L. Berry and Thomas W. Thompson, "Relationship Banking Keeps Clients Returning," Trusts and Estates, (November 1985): 27.

financial problems are weakening. Bankers are trying to keep as much of the business in the banks as they can. Referrals to the trust company by the affiliated bank are the exception not the rule.

Compensation of Employees

The change in management's requirements to have the trust officer actively generate new business raises compensation questions. When competition was not as great, customers were referred to the trust company by professionals. There was not much emphasis on bringing in new clients. The position of the trust administrator is quite unique. The employee who brings in the new customer, in many cases, also services the account. In many other sales situations the salesman sells the product, then the account is turned over to another party to be serviced. Also, most other financial products do not need the substantial amount of time that trust services require.

In many cases the trust employee who spends a lot of time out of the office generating new business does not have the time to service the existing customers properly. Should the employee who generates more new business than another be paid the same, assuming both are at equal levels in the pay structure? This is a question managers of trust companies should resolve to keep employees satisfied and productive.

Competition

In the early 1970s, different financial services were well delineated among specific types of businesses. An individual would go to an insurance agent for insurance needs, the bank for loans and the trust company for intergenerational funding and estate planning. Today, customers must decide which alternatives are right for their personal financial situation. They must select which of the many competitors will provide the best service for a reasonable fee. Differentiating between the services of the competitors in the financial services industry has become more complex. This is due to the many different options available among firms competing in different segments of the financial services industry (See Table 1).

Banks

For many years, banks and trust companies provided distinct services to their customers. Trust companies would provide investment advice, estate planning, and personal services such as collection of income from their assets, paying monthly bills, and tending to their financial needs should they become mentally or physically incapacitated. Banks would provide checking and savings accounts, loan money for consumer and commercial purposes, and offer certificates of deposit for their customers. Due to Regulation Q which removed the interest rate ceiling on time

Table 1

Range of Activities of
Financial Service Providers
in Personal Services

Activity	Banks	S&L's	Brokers	Ins.Co.	Inv.Mgr.
Take Money/Pay Int.	X	X	X	X	X
Check Writing	X	X	X	X	X
Loans	X	X	X	X	
Mortgages	X	X	X	X	
Credit Cards	X	X	X	X	
Tax-Advantage Inv.	X	X	X	X	X
Interstate Branches*		X	X	X	X
Mutual Funds			X	X	X
Money Mkt. Funds			X	X	X
Securities & Options			X	X	X
Comm. & Futures			X		X
Insurance*			X	X	X
Buy/Rent/Inv. in Real Estate			X	X	X
Cash Mgt. Acct.			X	X	

Source: American Bankers Association, Synergy in Banking in the 1980's (Washington D.C.: American Bankers Association, 1982), 30-31.

*Some banks have been allowed to have interstate banking and sell insurance after this book was published.

deposits, and other regulatory changes passed by Congress, much more flexibility has been given banks as to the amount of interest they can pay for the basic checking and savings accounts. (Refer to section on Government Regulation for more a detailed explanation, page 36.) Also, many variations of these basic services have arisen due to the increased competition from other banks and savings and loans. The deregulation of the banking industry has caused bankers to be much more sensitive to the bottom line because of increased competition.

Many other businesses have entered into the banking arena by providing alternatives to the basic checking and savings accounts. Brokerage houses have created money market checking accounts. The money market checking accounts have usually paid a higher interest rate than many banks offer. Insurance companies and individual financial planners also are creating alternative products to the checking and savings accounts. They, too, are offering forms of money market checking accounts at rates that are very competitive to the bank's accounts.

Banks have fought back by supporting legislation to allow them to sell insurance and offer discount brokerage services. They are also trying to repeal the Glass-Steagall Act which prohibits banks from selling stock. The Glass-Steagall Act was passed as a result of the stock market crash of 1929. Bank activities that preceded and contributed to the crash included allowing customers to purchase stock by borrowing up to 78 percent of the value of the stock. Congress wanted to stabilize the economy and restore banks to their former role in the financial industry, namely, to provide savings and lending services.

> ...banking and securities laws passed in the 1930s have sharply reduced financial risk by building walls between commercial banks and brokers and by limiting how much an investor can borrow to buy stocks.[7]

Banks that already have trust powers have the ability to provide investment advice and execute stock and bond transactions. Many of the banks that have exercised their trust powers and have trust departments, along with banks that do not have trust departments, are pushing for the repeal of the Glass-Steagall Act. This would enable them to provide their own investment services. As a result, banks appear to be overlooking a very valuable service that is already established in the industry. Because of the pressure to be more profitable, the banks with trust departments are looking at the trust company as their competition.

> While senior management may, in some instances, view such competition as healthy, it can increasingly confuse the customer and create unwanted tension between banking areas that should be cross-selling rather than competing.[8]

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[7]Kenneth H. Bacon, "A Repeat of '29? Depression in '87 Is Not Expected," The Wall Street Journal, 20 October 1987, 1.

[8]William F. Ottinger, "Selling Bank Advantages," Trusts and Estates, (May 1987): 28.

Banks have also unbundled their fees to increase profitability. Another method of increasing profitability is to increase the product lines the bank offers. Banks now offer mutual funds, discount brokerage services, and insurance. These are new services in addition to the more common services of checking and savings accounts and providing loans.

Savings and Loans

Savings and loan institutions were granted trust powers by the Depository Institutions Deregulation and Monetary Control Act (DIDMCA) of 1980. This act was passed to allow savings and loans to compete with commercial banks and trust companies. Many savings and loans saw niches where commercial trust companies could not provide their services profitably to the smaller client.

> But above all other reasons, it was the push to become a general financial service institution that propelled savings and loans into the trust business.[9]

Savings and loan institutions can service the smaller client by utilizing existing staff, or by contracting to have the transaction statements run, tax returns prepared and investment services provided by other organizations. In some cases these essential services can be done at a lower cost than by a commercial trust company. The savings and loans

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[9]Nancy Buckwalter, "Trusts: What Savings and Loans are Doing in Trust (And What Trust is Doing for Savings and Loans)," United States Banker, March 1982, 50.

are utilizing current client lists to find potential trust customers, and are using their trust powers to obtain data about their customer's overall financial situation.

> Trust services are 'the point' position, the leading edge of financial services because they really get you into a person's financial life.[10]

Savings and Loans have found a niche in the market and are working within their own means to provide trust services to the smaller client. They are screening their customers very carefully to avoid taking on trust customers who have complex situations or those accounts requiring an inordinate amount of time to manage, relative to potential profitability. The reason commercial trust companies should be concerned is that these smaller clients have the potential to become larger clients. Often, as the customer's assets grow so does the strength of the relationship with the financial institution. Also, as time passes, the savings and loans will be able to build on their expertise and potentially have the ability to service the larger account. Over time, savings and loans may find an expanding number of trust customers if they can adequately handle the smaller trust accounts they are trying to attract.

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[10]Ibid.

Investment Firms

As with other competitors in the financial services industry, investment firms have provided a distinct service to customers. In the past, this service has basically been buying and selling stocks and bonds and providing investment advice to their clients.

Merrill Lynch introduced the first cash management account in the early 1980s. Cash management accounts are vehicles for temporarily investing cash generated from sources in the customer's accounts until it can be invested on a more permanent basis. The investment firm was not allowed by law to provide check writing privileges. It purchased these services from a bank to set up its cash management accounts. These accounts allowed the increased return from a mutual fund and the flexibility of a bank checking account. This effectively offset the advantage of traditional bank checking accounts because the loss of interest was no longer offset by the convenience of check writing.

Many other investment firms followed Merrill Lynch's lead. Banks lost many depositors because the bank's services were not competitive. Later legislation started the process of deregulation of the banking industry giving banks the chance to provide other products with which to compete with the investment firms. These products included discount brokerage services, money market checking accounts, and competitive rates on certificates of deposit.

The ability of the investment firms to react quickly to consumer demand has allowed them to increase their market share in the financial services industry (See Table 2).

Table 2

Banks' Loss of Market Share
Percent of Total Financial Assets

	1949	1981
Banks	52%	37%
Thrifts	14%	24%
Other Financial Institutions	34%	39%

Source: American Bankers Association, Synergy in Banking in the 1980's (Washington, D.C.: American Bankers Association, 1982), 32.

Investment firms now offer products in almost every category in the financial services industry. They can provide loans, insurance, credit cards, and mortgages.

Insurance Companies

Not to be outdone by the investment firms, the insurance companies have also purchased services and other financial service companies to provide the products their customers demand. Many insurance companies are involved in many of the services that investment firms provide. These include check writing, credit cards, mutual funds, money market funds, and securities and options.

Each state regulates insurance companies. As a result, companies that want to serve customers nationwide must adjust their products to meet each state's regulations. This is a major obstacle for insurance companies to overcome.

Many insurance companies have large asset bases, positive cash flows, and distribution networks that are well-established. In order to give their agents more credibility and broaden their backgrounds, many insurance companies are encouraging their agents to become certified financial planners. But their main product will still be insurance.

> Life insurance agents turned financial planners who in their hearts still feel like life insurance agents will use financial planning as a door opener, but most of their income will come from life insurance commissions.[11]

The traditional markets for insurance companies are middle income Americans. As individuals become wealthier they work to a level of self-insurance. Insurance companies are providing more investment alternatives to be able to offer their services to these middle class Americans as they become wealthier. For example, if they cannot provide a

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[11]Stephen R. Leimberg, "Is Financial Planning a Money-Maker?" Trusts and Estates, (June 1986): 26.

form of life insurance, perhaps they can provide a mutual fund to their clients.

Some of the problems facing insurance agents are the lower commissions because of increased competition. Other products are providing better investment returns than the conventional insurance products; also, as they work into the financial planning area, many agents are faced with large expenses for computers to provide the information to their clients. Many insurance companies do not provide the equipment to support their agents. Insurance companies have recognized the potential in the financial services industry, and they believe that they can provide products that will be competitive and profitable.

Financial Planners

This is a group that has expanded in size throughout the U.S. since 1980. Prior to this period they essentially sold insurance products. Their product has been to provide individualized financial plans for their customers. Financial planners would try to attain maximum flexibility and fully utilize all resources available. They would then perform a comprehensive financial analysis to provide current guidance and long range financial planning opportunities to their customers. The planning process requires the client's participation in an ongoing consultation. This process provides planners with the individual's personal philosophy and objectives.

In order to service the middle income client, financial planners must automate many of the options and calculations required to save time and allow them to reach a large number of customers. This group is not regulated by any agency. The result is that many individuals without any type of financial background, training, or education are providing this service to middle income individuals.

The financial planners that service the wealthy are usually attorneys, accountants, or both. They have the experience, education, and resources available to satisfy the requirements of producing a comprehensive financial plan.

Customer Identification

One of the biggest challenges facing any financial services company is the ability to identify the customer that would benefit the most from its products. Another opportunity facing these same companies is the ability to react quickly to customer demands.

> There is a new breed of clients [*sic*]; they are more sophisticated than their predecessors; they shop; and they realize that services cost money....They want the best service available at a cost they think is reasonable.[12]

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[12]Ira H. Lustgarten, "A New Breed of Clients," *Trusts and Estates*, (January 1987): 20.

For many years the trust company primarily provided services to the very wealthy. These customers were concerned with receiving a reasonable return on their investments, estate and tax planning, and inter-generational funding to their children and grandchildren. The importance of this group is undeniable. But trust companies can also direct their attention to the young affluent because of the long term relationships that could develop.

Demographics

The ability to project the demographic composition of the adult population is critical in planning directions for a business. The increase in the size of the group encompassing the 35-44 age group is one of the reasons for the increased size of the financial services industry (See Table 3).

Table 3

Wealth Distribution By Age, 1980 - 1990

	% of Affluent	
Age Group	1980	1990
Under 25	1.4%	1.3%
25-34	19.3	20.6
35-44	26.2	31.8
45-54	28.3	24.5
55-64	18.6	15.4
Over 65	6.2	6.4

Source: American Bankers Association, Synergy in Banking in the 1980's (Washington, D.C.: American Bankers Association, 1982), Exhibit V, 12.

> ...(a) major demographic trend that began in the mid-1970s and will continue right into the end of the century is the rising share of the population made up of 35 to 44 year olds.[13]

This group is important because it is contributing to the economy and is also considered to be entering into its income accumulation years. It is continuing to make purchases of durable goods and their demands for financial services are increasing. Even though many are currently considered part of the lower-end wealthy group, (annual income from $35,000 to $100,000), they have the potential of earning an annual income in excess of $100,000. A word of caution must be made here, even though this will be the largest group in relation to the other age groups in the population, competition for jobs will be high. As this age group works into middle-management, and the timing of many companies moving through a cycle toward decentralization, and information technology increasing, the number of positions for this group will be limited. In order to reach the income levels they want, more families have chosen to have both spouses work.

> Among professional and white collar families, both spouses are gainfully employed in over 70 percent of all households.[14]

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[13]David Pearce Snyder, "Trust Future Bright Due to Changing Demographics," Trusts and Estates, (November 1985): 10.

[14]Ibid., 12.

As a result of the increased number of two-income families, the total income of the family unit has increased. The demand for financial services will increase and public policy will also change. Long term concerns for government agencies established for the purpose of supporting the health and welfare of our society will be the aging of this large group of 35-44 year olds. As they reach retirement age there will be fewer younger individuals in the work force to support them. Unless public policies change to support these retirees, there will be proportionately less funds available from government sources to support this group.

> 'The assumption that each working generation will take care of the one that preceded it is finished,' says Senator David F. Durenberger, 52, a Minnesota Republican and founder of Americans for Generational Equity, or AGE. The old will have to rely increasingly on themselves.[15]

To plan for this potential shortage, more and more families are turning to their own abilities to be assured of a comfortable retirement. Public policy is trying to reinforce this direction by allowing incentives to save for the future, e.g. individual retirement accounts.

> Tremendous opportunities exist in the area of personal trust due to the increase in highly paid professionals and two-income families.[16]

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[15]Lee Smith, "The War Between the Generations," Fortune, 20 July 1987, 78.

[16]Frank Roth, "Trust Services - Time for a Fresh Approach to Product Design," Bank Marketing, November 1987, 21.

Different products offered by trust companies will take on a new importance as families look for ways to provide for themselves and the generations that follow.

Changing Demands

> Today's customer is asking and demanding more than ever before--more variety in services, more specific responses to their objectives, more convenience.[17]

There are two basic types of customers that utilize trust services. One is seeking the products that trusts have provided for years to alleviate the problems of estate planning and inter-generational funding. The second type of customer is seeking competitive investment results through the agency and living trust agreements.

Rather than passively asking the trust company to provide the basic trust services as in the past, the younger affluent are taking a more active stance in the performance of the their investments and accounts. There are also many more companies aggressively seeking their competitor's clients. Trust companies must be competitive not only at an investment level, but also at a personal level. The customer loyalty of the past is not as strong now. Customers are inundated with much more information and can be expected to compare their situations with alternatives.

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[17]Craig Madsen, "Reappraising the Marketing of Trust Services," Trusts and Estates, (November 1981): 10.

A challenge facing many trust companies is learning each customer's financial objectives and constantly revising them as these objectives change. Communication with the customer has substantially increased. Retention selling has taken on a new importance. Frequently, new customers expect "instant" financial returns. Consequently, it is necessary to provide an in-depth explanation of investment products and how they accomplish the financial objectives the customer has established.

Government Regulation

> Historically a wide range of restrictions have been placed on the financial services industry. These have served to compartmentalize institutions, both by function and by geography.[18]

Due to economic changes during the 1970s, many competitors in the financial services industry began to experiment with new product offerings. Also, there was some anticipation of legislative changes to deregulate the financial services industry.

Regulation Q was passed in 1970. It removed the interest rate ceiling on time deposits of $100,000 or more, with maturities of 30-90 days. This was one the first moves by lawmakers to make banks more competitive. Other changes increased the convenience to the customer. These changes

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[18]American Bankers Association, Synergy in Banking in the 1980's (Washington D.C.: American Bankers Association, 1982), 19.

included allowing customers to make telephone transfers from one account to another, the offering of savings accounts to businesses, and the ability of commercial banks to offer automatic transfers from a savings account into a checking account.

One of the major bills affecting the financial services industry was the Depository Institutions Deregulation and Monetary Control Act (DIDMCA) of 1980. The main purpose of this act was to allow banking institutions to compete more effectively. This act affected trust companies as it did other competitors of banks. Trust companies now had one more competitor. Bank customers were being offered products with more competitive interest rates. Whereas before, when customers had substantial sums of money to invest, they would go to the trust company. Now, they must decide if the bank could provide competitive products. Theoretically, competition is good for the customer; however, when there are many services available, some very complex, the potential client can become confused.

Some of the more recent tax reform acts have had a large impact on trust companies. The purpose of tax reform has changed.

> Compliance problems abound with TRA 1986. Fiduciaries face continuing problems with legislation. Changes to law occur too frequently, with little input from affected parties, with no consistency to changes. Rather than taking one area of the law and looking at all aspects, Congress makes piecemeal changes without soliciting outside comments. Ways of revenue raising

without raising general income tax rates seems to be Congress's goal.[19]

Tax Reform Act of 1986

Prior to the Tax Reform Act of 1986, trusts had a lower marginal tax rate than most wealthy individuals. This situation led to the use of trusts as a tax saving tool. Individuals could shift a portion of their assets (and the earned income from them) to a trust for another family member (usually a child) who was in a lower tax bracket. The effect was a smaller overall tax bill from the Internal Revenue Service. As a result of the Tax Reform Act of 1986, for any child under the age of fourteen, unearned income greater than $1,000 (regardless of its source) will be taxed at the higher of the child's or the parent's marginal rate. This severely limits the use of a trust as a means of shifting income from the parents to their children.

The above example demonstrates how the Internal Revenue Service is shifting from taxing individuals in the family to taxing the family as a unit. "The point can be made that family wealth is being broken down through taxation..."[20]

Also, under the Tax Reform Act of 1986, Clifford Trusts funded after March 1, 1986, have been repealed. The tem-

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[19]Jeffery N. Pennell, "Coming Year Brings Little Comfort," Trusts and Estates, (January 1987): 21.

[20]Harold Bell, "Financial Planning Provides Expansion for Trust Services," Trusts and Estates, (December 1985): 24.

porary shifting of assets to another individual in a lower tax bracket has been eliminated. The act states that since the owner (grantor) of the trust retains a reversionary interest of greater than 5 percent in the trust, he is considered the owner of the trust assets for tax purposes and the trust income will be taxed to the owner at his marginal tax rate.

Congress has instituted other methods for raising revenues that directly affect trusts. Trusts must also pay quarterly estimates in the same manner as individuals, and personal trusts must file their tax returns on a calendar year end. By moving almost all taxable personal trusts to a calendar year end, a one time revenue windfall passed onto the U.S. government as a budget balancing measure.

Even though some of the tax advantages for using trusts have been limited or eliminated, there are still many good reasons to use trusts. Trusts are a long term tool for managing assets. Tax savings should not be the only reason for opening a trust, because the tax laws are changing frequently and more dramatically than in the past.

There is a positive side to the changes that Congress has imposed on the trust industry. Each time there is a change in the law, it creates an opportunity for communication to the client. The ability of the trust company to adjust to law changes reflects the competence and the adaptability of having professional trustees.

Because of the continuing changes in the tax law, it is more than ever necessary to impress upon this sophisticated clientele the responsibilities and indeed liabilities of fiduciaries so that each of them has an understanding of what fiduciaries do and is in a position to compare how well they may be expected to do it.[21]

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[21] Ira H. Lustgarten, "A New Breed of Clients," <u>Trusts and Estates</u>, (January 1987): 20.

CHAPTER 3

FACTORS IMPORTANT IN MARKETING TRUST SERVICES

Factors important to marketing trusts are knowing customer needs; establishing target markets; defining services to provide; pricing services; and advertising the services. Leadership is an important element in creating and maintaining vitality in an organization.

> It all depends on whether top management decides to use the clerk mentality to add a little gold trim to the bank (trust company) or to marshall the bank's (trust company's) resources for a bolder, more creative venture. Banks (trust companies) have their investment departments already in place. The giant computer is already there. All that is missing is the right frame of mind.[22]

Marketing has taken on a new position in strategic planning for the trust company. The passive method of attracting clients is no longer effective. There are many more potential clients, but more importantly there are many more competitors trying to reach the same customers.

In a presentation at the 1981 National Corporate Trust Workshop in Chicago, Ill, the president of the American Bankers Association, Trust Division noted that trust companies are not a well-known alternative in providing financial services.

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[22]Stephen R. Leimberg, "Is Financial Planning a Money-Maker?" Trusts and Estates, (June 1986): 26.

> The research we have conducted as an industry over the last 10 to 15 years has reflected the sad fact that the trust department is largely an unknown entity in banking.[23]

The challenge for the trust company must not only be to become better known in the banking business, but also to be a well-known, viable alternative to other financial services in the industry.

Customer Needs

One of the biggest challenges facing trust companies is identifying customer needs. Many trust customers are looking for investment alternatives in addition to other trust services. Due to the increased competition in financial services there is more emphasis on getting a competitive return on an investment. Middle aged clients may eventually want other trust services. But at this present stage in their life, ages 35-44, they are trying to get the best return on their money. Younger clients tend to be less loyal, more educated, and more demanding than trust clients in the past.

Personal service has become very important. Customers believe they are entitled to receive a minimum level of service for the fees they pay. Included with this level of service is personal contact. Many customers are becoming

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[23]Richard W. Heiss, "Trust Business Changing in Response to Market Forces," Trusts and Estates, (August 1981): 21.

disillusioned with confusing financial reports, hidden fees, and lack of professionalism many financial services companies provide.

Many customers do not want to reveal their complete personal financial status to each financial services firm soliciting their business (or even those who are handling one or more of their financial needs). A degree of trust and competence must be shown to the customers before they will be willing to work with a company. With so many alternatives available to financial services clients, the attributes of trust services become apparent. Trusts have been around for thousands of years. They have developed a proven track record. This history can increase the customer's confidence in revealing personal financial information to the trust administrator.

The President of The Market Evaluation Group of Greenwich, CT, has noted that more and more, customers are utilizing the financial services industry.

> In addition, the facts and figures show that over the past five years more people have turned to professional management of their personal assets than ever before.[24]

In the trust area alone, "assets in personal trust accounts approximately doubled in the 1970s to over $200 billion."[25]

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[24]Paul I. Kampner, "The Future of the Trust Business," Trusts and Estates, (August 1987): 49.

[25]American Bankers Association, Synergy in Banking in the 1980's (Washington D.C.: American Bankers Association, 1982), 67.

This trend is a result of confusing and rapidly changing tax laws, and the increased complexity of compliance to statutory laws and regulations. Trust companies must utilize attorneys and accountants to provide their specific expertise relating to trusts. Each of these parties will continue to need the services of the others. Once they realize that they must work together, the level of competition among them will decrease.

Market Segmentation

> The principle of segmentation involves further subdividing... groupings, based on certain common characteristics, into more clearly defined, homogeneous subgroups.[26]

The reason for segmentation is few financial services companies can provide all of the services each individual needs. Individuals can be grouped by: residence, demographics, and life cycle patterns-also known as psychographics. An organization that can identify the group of individuals that has a need and or a desire for its products, can target this market directly. This method provides for a more efficient use of funds available for advertising. The organization also can more effectively direct its manpower and support staff to become sensitive to this group's needs.

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[26]Edward W. Wheatley, Marketing Professional Services, (Englewood Cliffs, New Jersey: Prentice-Hall Inc., 1983), 101.

Proper market segmentation results in the ability to provide products or services that fulfill the needs of the target market. Market segmentation adjusts the organization to be market or client-driven as opposed to being product-driven. The goal of the company becomes one of defining the needs of the clients as opposed to finding clients who want to purchase the services currently provided. Creating satisfied customers is the goal of most successful organizations and contributes to their profitability.

Most trust clients are affluent. The affluent market consists of persons with an annual income in excess of $100,000 or total assets of $500,000. Understanding this group is important to the livelihood of the trust company. "Segmenting the affluent market according to needs, attitudes, and life cycles as well as by economic characteristics...."[27] helps to identify this non-homogenous group.

According to Allen R. DeCotis and John J. DeMarco,[28] there are three major factors that are important in determining the needs of the potential trust client. These factors are:

1. Occupational
2. Psychographics (Life Cycle)
3. Wealth

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[27]Allen R. DeCotis and John J. DeMarco, "High Income Customers Lead to High Profit Business," Trusts and Estates, (November 1985): 22-23.

[28]Ibid.

Occupational considerations deal with whether individuals are entrepreneurs, sole proprietors, or executives for a company. The priorities for the first two types of individuals are similar, they are risk-takers and are directing their personal efforts toward the growth of their business. Whereas, corporate executives tend to be more conservative and may have substantial benefits that may need managing upon their retirement.

Psychographics deals with the different cycles individuals face during their lifetime. These different stages range from basic needs for financial services, e.g., personal loans, home loans, and life insurance through the income accumulation years to the preparation for retirement and beyond. The importance of using psychographics is that individuals have different needs at different times of their lives. A company must identify these stages in order to provide its customers with the services they most need.

There are two groups within the category of wealth identified by Messrs. DeCotis and DeMarco. They are the young affluent and the retired affluent. The young affluent are looking for basic investment vehicles. They are sensitive to returns on their investments and are less loyal. In addition to safety of principal and a reasonable return on their investments, the retired affluent are looking for other services. Their needs range from estate planning and inter-generational funding, to support and maintenance should they become incompetent. The needs for the latter group are more divergent, but to overlook the young affluent would be a mistake. The potential to establish a long-term relationship is very important. Personal, competent service is the link to retaining both of these groups.

The last factor in identifying the affluent has to do with the person's type of wealth. There are different types of wealth including established wealth, wealth as a result of careers, and wealth as a result of windfalls. Windfalls as described here refers to inheritances, gifts, or other sudden financial gains. All of the individuals who fall into these categories will have a need for financial services of some type.

The established wealthy may need financial services to provide and maintain the lifestyle to which they are accustomed or for gifts and endowments. Those who have become wealthy as result of careers may need financial services to supplement other types of income. Those who became wealthy as a result of a windfall may need to be informed what financial services are available, and how to set up a long-term program to retain this newly attained wealth.

The importance of trust companies utilizing resources to identify the different market segments cannot be emphasized enough. The result of the in-depth knowledge from the identification process is the ability to know the needs of the potential client, and to develop innovative programs to attract a larger share of the target market.

Products

Trust companies have been providing financial services to clients for decades. These services largely consist of financial planning, asset administration, money management, estate and trust tax preparation, and estate planning.

> The key to success for any trust services provider is to offer a variety of services while maintaining the personal relationships that continue to be the foundation of the trust industry.[29]

Financial services related to those noted above can enable the trust company to compete effectively. They do not necessarily have to be totally different but can be variations of services already provided. For example, the estate planning staff can also provide financial counseling.

The financial planning process is very similar to estate planning. The goals are different, but the process and the tools are alike. The process starts with the identification of the objectives the client wishes to achieve. The next step is to note any situations that may occur which may prevent the client from achieving the objectives. The last step is to use available tools such as cash management and investment advice, to accomplish the

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[29]Frank Roth, "Trust Services - Time for a Fresh Approach to Product Design," Bank Marketing, November 1987, 20.

goals. Many of these tools are already in place for other services provided by the trust company.

A new product that trust companies are trying to provide to the smaller client is the utilization of common funds as investments in agency accounts. A common fund is a portfolio of stocks or bonds that a trust investment department manages for its trust accounts. Present law does not allow trust companies to use common funds for agency purposes. The American Bankers Association Trust Division is lobbying to allow trust companies to offer this product for their agency accounts. The use of common funds would lower the direct costs associated with investing for the smaller accounts. An advantage is a type of investment that could be offered to the smaller client at lower cost. The opportunity for establishing a long-term relationship arises.

As technology changes, automation plays an important part in providing a quality product to the customer, while cutting expenses for the trust company. The transaction statements and investment performance reports must be accurate, easy to read, and of a quality that befits the service. Exception reports can be generated to help notify the trust officer of special events and dates that require action to manage the account smoothly. An example of such a report would be a list of maturities of bonds in a particular account. An effective computer system can provide the necessary information to support the different services a trust company offers.

Pricing

Pricing of professional services has become much more sensitive than in the past due to the increased competition in the financial services industry. Many national companies are providing a low cost product to attract the average investor. There are different methods for calculating the fees for services provided. They range from straight commissions based on transactions, general management fees based on market value of assets managed, and specific fees for specific services.

Financial planners charge their fees for the financial plan itself or for a portion of the "spread" between what they purchase or sell the asset for and what they charge the customer. This is a very subtle way of charging the customer for services. In some cases they will tell the customer that they will provide a financial plan at no cost.

Investment counselors or brokers are paid on a commission basis. They will receive a fee when they buy or sell assets. There can be a potential conflict because the broker might be more interested in increasing his fees than providing a long-term financial plan for the customer.

Trust companies receive annual fees based on a percentage of the market value of the assets being managed. If the market value of the account increases, so does the fee for the trust company. Trust companies are required to disclose their fees to their customers. When fees are taken for services rendered, they are reflected in the customer's transaction statement.

Advertising

The foundation of any advertising and sales plan is the marketing plan. The marketing plan is needed to forecast changes in the market and take advantage of opportunities when they arise. It can allocate limited resources to the top priorities set by management and avoid wasting funds on expensive fads.

A major part of any marketing plan is the advertising campaign. Effective advertising can be summarized into the following sentence. "Be in the right media, going to the right people, with the right message, at the right time."[30] There can be many reasons for advertising. They can range from brand recognition to reaching inaccessible buyers.

Trust companies are faced with many challenges. They must be able to present an image to the consumer, educate the public in general about their services and aid the staff in their new active sales approach. Even though trust services have been available for a number of years, the

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[30]Richard H. Buskirk, Principles of Marketing, (New York: Holt, Rinehart and Winston, Inc., 1970), 459.

trust company must differentiate its services from its competitors.

A number of different methods can accomplish the above noted objectives.

1. Direct Selling

2. Direct Mailing

3. Targeted Media Advertising

In direct selling, the first group the trust company should approach is the bank.

> For trust bankers, marketing is a two-front campaign: marketing to customers, both current and potential; and marketing to the bank, not only the CEO and top management, but to the entire staff.[31]

There is a lot of business that can be referred to the trust company from the loan officer or personal banker.

The second group that should be approached in the direct selling category is the customers. Rather than knocking on doors, trust sales staff can set up seminars to educate the public on trust services. The focus of seminars can be on changes in tax laws or financial planning for clients at a particular time of the year when individuals begin thinking about financial planning (usually the first two months of the year). Another stage for presenting information about trust services would be to service club meetings.

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[31]Nancy Buckwalter, "Trust: Two-Way Trust Marketing," United States Banker, December 1982, 20.

The second method for meeting the advertising objective is by direct mailings. After the market has been segmented and the target market identified, a mailing of brochures identifying trust services and a general financial newsletter can be mailed to these individuals. Subsequently, a follow-up telephone call can qualify these potential customers. This does not necessarily have to be a hard sell program, but more a question and answer session to increase the awareness to the public and identify situations for trust services.

The last method for educating, increasing awareness, and helping sell trust services is by targeted media advertising. This can be accomplished by advertisements during financial news programs on television and radio, newspaper advertisements, and publicity interviews with trust employees. Those customers who are thinking about some type of financial service to solve a problem may notice these advertisements and initiate the contact.

These different methods should be used together as distinct parts of an overall advertising campaign. Past experience indicates stand alone advertising has little effect on the consumer. The direct selling and seminars should be an ongoing method of maintaining contact with other professionals, service organizations, and the public.

CHAPTER 4

RECOMMENDATIONS AND SUMMARY

Due to increased deregulation and competition, trust companies must actively seek new business, retain current business, and follow-up on all referrals. Trust companies must establish a comprehensive marketing plan to distinguish themselves from other financial service companies. The marketing plan must be established and constantly updated to accommodate changing conditions in the market. Customer identification, market segmentation, and target marketing are some of the critical factors necessary in preparing the market analysis. With the information from the market analysis, a market strategy can be established and implemented. This strategy includes product development, establishing pricing policies, staff training, customer education, and advertising.

Market Analysis. The trust company must be able to identify potential users of its services. The market must be segmented into categories reflecting the different characteristics of the separate groups. Once the markets are segmented, the trust company can establish target markets in which to direct its marketing strategy. The result of studies and analysis indicate that the market segment that trust companies should target is the middle-aged, high-income professionals.

> The situation analysis included a probe of regional demographics, wealth bases, and competitive factors to help allocate resources and selling time. It also identified as the core market middle-aged, high income professionals, business owners, corporate managers and professional and technical employees.[32]

The lower-end wealthy individuals, ($35,000 to $100,000 in annual income), will be an increasingly larger group, demographically speaking, in the near future. By working with these groups, a trust company will be able to secure future business as these individuals become older. They will have already had contact with trust companies as an investment and planning option, rather than having to go through the process of learning about trust services.

Market Strategy. After the market analysis has been completed a strategy must be developed to most effectively reach the customers targeted in the market. The products provided by the trust company must be examined to see if they fulfill the needs of the customers. The investment department provides a great opportunity for attracting new business. If the return on the investments it manages is competitive, many potential investors should be interested in their services. In an environment where the younger affluent are very sensitive to investment performance, new business can be generated by competitive investment results.

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[32]Richard W. Prensner, "Marketing Individual Financial Services," Trusts and Estates, (November 1982): 17.

Also, management must decide if new products can be introduced. For example, the investment department could provide general investment counseling on a fee basis. This additional service complements those already in place. The benefit is the client would become familiar with the capabilities of the trust staff. The next item in the market strategy is pricing policies. The service must be provided at a rate that allows for a profit but is competitive with alternatives.

The staff must be trained to provide the market with the services needed. In addition to the product training, the trust employees should be versed on general communication skills. The next step in the strategy is to educate the customer on the products and services of the trust company. Once they are made aware that the trust company can fulfill a need in their financial situation, they would be more receptive to the services. An advertising campaign should be established to respond to the customer needs as set out in the market analysis. The advertising program must have an objective in order to measure the effectiveness of the campaign.

Trust companies should demonstrate how they can increase the profitability of banks by developing a cooperative working relationship. If customers have established a trust relationship, they have in most cases also disclosed a large part of their personal financial situation to the trust officer. This alone creates strong relationships, because most people do not feel comfortable revealing their personal situation and financial statements to every bank in order to get the most competitive interest rates on checking accounts, saving accounts and loans. Working with the same organization can be reassuring. New customers referred to the trust company by existing customers will also ask for banking services. This can be an excellent opportunity to mention services of the bank with which the trust company is affiliated.

The trust staff is comfortable in dealing with affluent customers. They can act in an advisory role to solve unique situations that cannot be readily solved by the banker. Customers requiring assistance with investments, setting up charitable foundations and gifting programs, and planning inter-generational funding would need the services of the trust company and not the bank. Also, situations utilizing trusts can have a need for bank services. This, too, can increase the total relationship banks and trust companies wish to establish with the customer.

The trust officer should take every opportunity to provide seminars to bank staff. The officer must be careful to avoid using unfamiliar and complex terminology. The trust officer should leave brochures listing the services of the trust company for quick reference. The impression that should remain is that the bank employee should be able to identify customers or situations where trust services are the answer.

In addition to the personal meetings and referrals, newsletters can be passed on to bank employees and left in the bank lobbies for customers to read. These newsletters can be used to tell the bank employees and customers about what is happening in the trust company. They can also be used to circulate changes in tax law, and furnish examples of how trust companies and their services can be utilized. These newsletters are used to reinforce the personal meetings between trust officers and bank staff. They should be produced and distributed consistently so the bank employees and customers tend to look for them. Should customers have a question or a particular situation that requires trust services, the newsletter would list the different services provided by the trust company. The newsletter would be used as a tool to help the bank staff better serve and identify potential trust customers.

Several different alternatives of handling the compensation of employees are found in the trust industry. First, is to make the trust officers responsible for the business they generate and compensate them based on new and retained business. The employees must make their own contacts, and service the account when it is opened. An advantage to this alternative is that clients will be most familiar with the trust officer with whom the account was opened. Clients will not feel uncomfortable in having to deal with new acquaintances. In most cases, the reason clients open an account was because of the confidence the trust officer has instilled in them. A disadvantage is the time that is used in generating new business is taken from the administration aspect of the job. In a highly personalized business, the ability of trust officers to stay abreast of changes in the client's situation is very important.

Second, utilize a business development employee whose major responsibility is to generate new business. The business development employee would be compensated based on new accounts and the account administrators would be compensated based on the value of retained accounts. An advantage to this alternative is that an individual who is trained and comfortable in closing sales is not tied down by regular administrative duties. A disadvantage is that new accounts must be transferred from the business development employee to the person who will actually administer the account.

The first alternative creates a level playing field for all trust administrators to compete and bring in new business. Each employee is competing to bring in new business, the criteria are the same and the results reflect the employee's ability to seek out new customers. The second alternative can create inequities: account administrators may be judged by the same criteria as the business development officer who should always bring in the most new business.

Many trust companies are utilizing point systems and monetary incentives to generate new business. Complex systems of rules and their interpretations can create animosity among employees. The reason for the animosity is management sometimes combines the two alternatives noted above to try to generate more business. It is important that the employees be rewarded both for generating new business and compensated for the increased requirements of their position.

A revolving door between trust services and bank services can exist. (This can also apply to savings and loans if they choose to activate their trust powers.) Some advantages to this type of relationship follow:

1. The bank can receive increased deposits from services provided by the trust company.
2. Because of the nature of the trust business, the trust officer can see more of a client's overall financial picture and provide solutions that may involve the bank's services.
3. Because trust customers have already been screened, the quality of deposits and loans can be improved.

The management of trust companies must become more aware of the many different competitors in the financial services industry. Also, by understanding the products other competitors are offering and how they are marketing them, can help the trust company to be more competitive.

The trust industry must provide a service to a market that can benefit from its products. It must compete with the many new alternatives being offered to potential clients.

> New competitors are by definition just that - new, with unproven track records....Newness does not guarantee being better, more aggressive, or more responsive. In fact, stable, well-managed services organizations may well find it easier to quickly redeploy resources that are already in place.[33]

The trust company has the potential to establish long term relationships by providing an investment return that is competitive at a reasonable fee. Much more work will be required than in the past to retain these relationships. The importance of individualized and personal services cannot be underestimated in the face of mass-marketed financial products.

Summary

Even though trust companies are a well-established part of the financial services industry, they are not well-known to the general public. Following the above noted recommendations will help market trust companies as a viable alternative to other financial services. The goal of a trust

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[33]Harold Bell, "Financial Planning Provides Expansion for Trust Services," Trusts and Estates, (December 1985): 25.

company should be to have potential clients consider its services to help solve their financial problems.

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