

Customer Relationship White Paper

Growing customer relationships: 90 days that make it or break it

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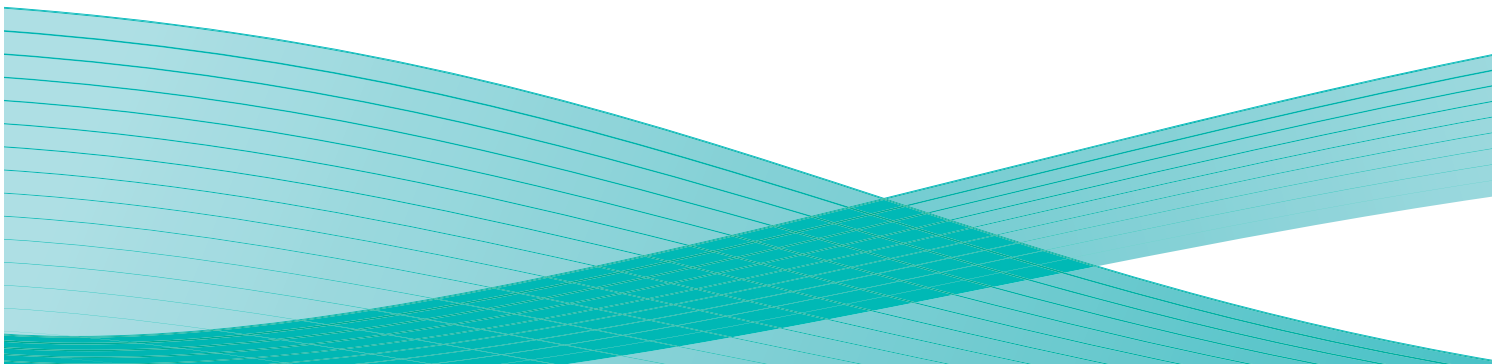
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Why are the first few months in customer relationships critical?

Across the nation, banks seeking to create deeper relationships with their customers are focused on their existing customers rather than on their newest customers. According to key benchmarking and best practices profiles generated through BAI's *The Quest for Deposits* project, directing resources toward cementing bonds with the newest customers is a more reliable way to earn the durable, profitable relationships that banks seek.

The research reveals that a significant portion of bank investments in customer relationship management (CRM), lead management, cross-selling and retention aimed at the mature customer base might be misdirected. Why? One of the most striking findings in the performance metrics is that most cross-selling opportunities occur during the first few months of a customer relationship. And in a refrain heard repeatedly through dozens of executive interviews, senior bankers at many financial services companies said that customer attrition rates are significantly higher at the beginning of a relationship than when a relationship is six months old or older—sometimes as much as 100 percent higher.

The study argues that in addition to focusing cross-selling and retention efforts on mature customer relationships, banks also need to refocus additional energies on the beginning of customer relationships. Further, they may need to reconfigure product packaging, sales efforts, lead management, service quality and incentive programs to move toward greater customer satisfaction.

Customer Onboarding

Successful orientation programs for new customers are built around a series of opportunities that touch the customer during the first 90 days of the relationship. They are founded on simple products with transparent features and fees. Based on the results of *The Frontline Experience*, consumers who received “onboarding”^{*} contacts displayed:

- Higher satisfaction with their checking account provider
- A greater likelihood to purchase additional products
- A greater likelihood to recommend the provider to friends and family members

The research data show that banks that communicate with their customers early and often in the relationship improve cross-selling results and lower attrition rates. In fact, the bank that displayed the best practices in developing a comprehensive new customer orientation program reported a product cross-sell ratio among new checking households that was 8 percent higher than the benchmark norm and 15 percent higher than the lowest performing bank in the study. This may seem like a relatively modest level of differentiation between the top-tier and the average and lowest performing banks. However, it is actually a very substantial performance differential when one considers that most large banks open hundreds of thousands of new checking account relationships per year.

In addition to cross-selling, the performance improvements in customer retention generated by new customer orientation programs are staggering. This same top-performing bank reported that their checking customer attrition rate decreased by 50 percent as a result of their new customer orientation program.

The research also revealed that the breakthrough results of a new customer orientation program will only be achieved if the program is integrated with a handful of basic premises:

- Keep products—including rates and fees—simple so bank staff can explain them and customers can understand them.
- Sell customers products that fit their financial needs.
- Don't underestimate how much realignment of corporate culture, incentives and training may be needed to reach retention and sales goals.

^{*}Onboarding is a systematic follow-up process used by banks to ensure new account customers are handled properly.

Key Findings

- Relationship management resources should focus on the beginning of a relationship rather than on the end of one.
- Successful new customer orientation programs require simple products and packages involving transparent rates and fees that bankers can communicate and customers can understand.
- A key element in developing customer trust is selling customers the products that best fit their needs.
- Banks are most likely to create strong relationships with customers when corporate culture, incentives and training are closely aligned with cross-selling and retention goals.

Revealing results from *The Quest for Deposits*.

The deposit business is still one of the most profitable for banks, and the checking account is where retail relationships often begin. Of respondents surveyed for *The Frontline Experience*, 50 percent compared offerings of two or more institutions before opening a checking account. Further, 70 percent considered the bank they ultimately chose for their checking account to be their primary bank.

The crusade for new retail deposit relationships has heated up in recent years and is white-hot in the most competitive locations in the country. Witness the investments behind more than a thousand de novo branches slated to open during the next two to five years and the adoption of free checking by all but a handful of banks. The result of these initiatives is often higher customer acquisition costs and longer payback periods on the marketing and sales investments.

A key concern is that banks need customers who are profitable, and profitability depends on the bank's ability to hang on to customers and cross-sell them into new products. The success of those efforts is usually determined within the first three to six months of the relationship. That's when most of the cross-selling opportunities arise and when customers are establishing account-usage patterns and forming opinions about their new banking partner.

Multiproduct relationships are critical to retaining customers, as they represent greater involvement with the bank. Customer data provided by the eight large banks that participated in BAI's *The Quest for Deposits* project revealed that nearly three-quarters of cross-sales from a retail checking account relationship occur within 90 days of account opening.

Unfortunately, bank investments in cross-selling and retention traditionally have been focused on their established customer base. The research suggested that redirecting a portion of those efforts to the first 60–90 days of a customer relationship will yield better results, but respondents also cautioned that no bank should underestimate the complexity of the task.

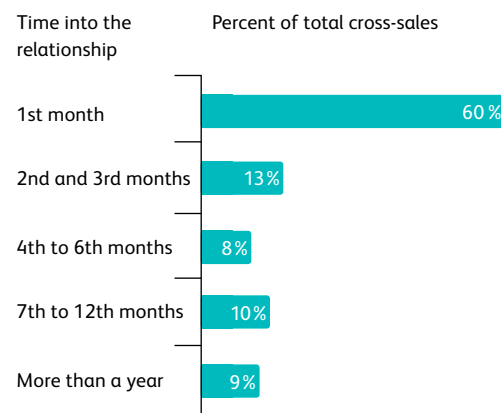
Doing it right involves aligning incentives to encourage needs-based selling, including carefully crafted profiling conversations at the point of sale. It also includes tangibly encouraging staff to identify the right products for a customer, to carry out an effective new customer origination process that may extend three to six months, and to ensure high-quality fulfillment. In short, the task may amount to a significant change in corporate culture, with all that such an effort implies.

The data analyzed by BAI also showed that attrition rates during the first three months of an account's lifespan can be up to two times higher than attrition from accounts half a year old or older. Bankers reported that the leading cause of attrition is **selling customers the wrong products**.

Selling the wrong products can be the result of the failure, or lack, of a needs-based sales process to uncover customer requirements when an account is opened. It can happen when products are too complex for the staff to explain fully or for customers to understand in a short time frame. It also can result from management's failure to align staff incentives effectively with the bank's desire to match customers and products.

Time is of the essence

Multiproduct relationships are critical in customer retention, and most cross-sell opportunities come in the first three months after a checking account is opened.



Source: 2003 benchmarking study of eight large U.S. banks by BAI Research and MarkeTech Systems International

The second leading cause of customer disaffection during the initial phase of a new depository relationship is a **failure to execute on fulfillment**, especially on items such as check orders, ATM and debit cards, PINs, online banking and bill payment. Fulfillment problems can arise from poor quality control or training on the front end during the account opening or on the back end in a fulfillment process. A customer's dissatisfaction may be related to the problem itself or to the bank's inability to solve it quickly and fairly from the customer's viewpoint.

The third major controllable cause of customer dissatisfaction is **after-purchase surprises** about product functionality or features, especially prices. The surprises generally grow out of relationship-origination processes that fail to inform customers adequately about features, especially fees.

Some banks reported that they had implemented new customer orientation measures to address such issues, while others reported that they recognized the need but had not begun to respond systematically. The research data suggest that an effective response to the challenge of enhancing retention and capturing cross-sell opportunities during the onset of new customer relationships should be multidimensional and involve a process that aligns product packaging, needs-based sales efforts, post-sales follow-up and front-line sales incentives. A key element in getting the mix right is product management.

Managing products so cross-selling can flourish.

Customer-driven product management creates an environment in which cross-selling and retention can thrive. The first role of product management is **ensuring that customers fully understand the products they are considering**. This begins by simplifying products. Many of the banks that participated in the research admitted that their products were too complex and contained more features than the average customer can comprehend or ever use. In response, these banks have sought to dramatically simplify their product offerings. The retail staff at one responding bank cut the number of product features they addressed in depth from 17 to three or four.

In addition, many banks are examining fees in the context of their potential effect on profitable customer behavior. The strategy is to increase account balances and extend relationships by reducing nuisance fees. Several banks in the study reported they had simplified fee structures and surrendered millions of dollars of customer-unfriendly fees. They more than offset the fee shortfall, however, with higher balances and improved retention. This simplification effort often has the added benefit of making pricing transparent to customers and—equally as important—to staff who have to explain it. The sales process is only successful in the long term if product packages engage prospective customers and are free of unpleasant future surprises.

The second product management role is **focusing on product packaging that encourages multiproduct ownership and account usage in the first place—resulting in a sticky relationship**. To this end, the research uncovered a significant trend of banks creating product packages that are targeted to particular customer segments, life events or financial needs.

Some of these packages offer interest rate, fee and minimum balance structures that are based on the total assets and liabilities that a customer brings to the relationship—thus rewarding the overall value of the relationship. Wells Fargo's PMA checking account package is a good example as it features relationship pricing benefits that can be targeted to both younger customers who have mortgage and consumer borrowing needs as well as to more-affluent customers who are in an investment/asset-accumulating life stage. Other banks have designed packaged accounts that are targeted to certain financial needs, such as establishing a credit history, saving for children's education, saving for retirement or maintaining one's standard of living after retirement.

Tried-and-true tactics of successful customer relationships.

Based on the research, product fit, quality and communication are the three main pillars of successful customer relationships:

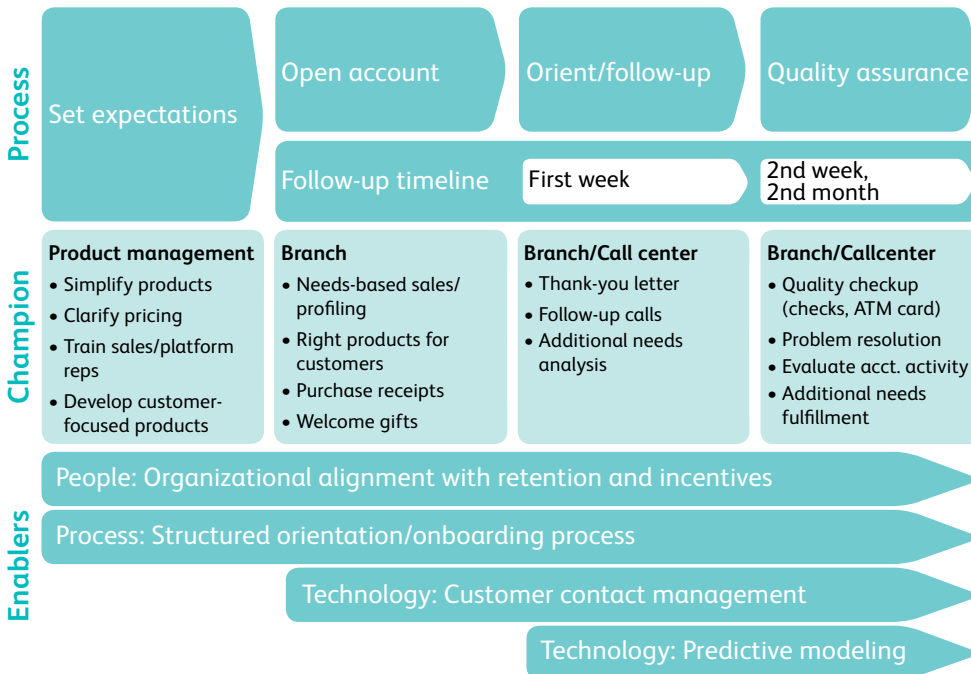
- *Product fit* starts with customer-centric design of products and packaging and includes careful needs-based selling and customer rewards based on the total value of the relationship. According to *The Frontline Experience*, 65 percent of respondents said their primary reason for choosing to open a checking account at a particular institution was because it “offered the account that best fit my needs.”
- *Quality* means fast, effective problem resolution, often in the context of Six Sigma or other programs.
- *Communication* involves simplicity of products and transparency of fees but also includes high-touch follow-up. The most successful programs employ predictive modeling that enables bank staff to make just the right approach to the customer at just the right time.

While some banks reported informal approaches to new customer orientation, the banks that delivered best on cross-selling and retention had clearly defined and systematic approaches to new customer account management that became part of the corporate culture.

Whatever the tangible form of such programs, they institutionalize four essential steps:

- Setting expectations
- Opening the account
- Orienting the customer and following up
- Ensuring a high-quality customer experience

This integrated, four-step process is designed to reduce attrition, stimulate account usage, cross-sell appropriate products and make the customer feel valued. The banks that executed the most consistently across all steps of this integrated process achieved performance metrics that were consistently higher than the benchmark norm. A sampling of the performance metrics from these best practice banks reveals that coordinated new customer orientation has the potential to generate substantial competitive advantage.



Set your expectations from the start.

Almost a pre-step, product management plays at least two vital roles in setting expectations and enrolling satisfied customers. The first role is in simplifying products so staff can explain them and customers can understand them. A second role is creating packages that are closely aligned with specific customer segments or financial needs. The point is to grow a single point of entry, such as the opening of a checking account, into a profitable, multifaceted relationship. The research reveals that selling such packages at account opening not only enhances retention, but has a much greater financial payback than trying to cross-sell those individual products a year or two later.

Performance metric	Benchmark norm	Results at the top-tier performers
Single service checking account households as a percent of total deposit households	27%	Results that were 34% better than the benchmark norm
Average amount of time to cross-sell the next product after the opening of a new checking account relationship	2.9 months	Results that were 57% better than the benchmark norm
Percent of checking households opening a new account within 30 days of a new checking account relationship	27%	Results that were 86% better than the benchmark norm

Make opening an account simple and trouble-free.

Nothing is more likely to lead to new account attrition than selling a customer the wrong product. The sales process is more likely to lead to long-term satisfaction if the product is simple and the pricing transparent. **But the best way banks have discovered to ensure that any individual customer gets the right product is through needs-based selling.**

Needs-based selling is the foundation on which good customer relationships are created because engaging customers in a dialogue that clarifies the bank's and the customer's expectations or needs lays the groundwork for a relationship that is based on trust. When considering account-opening activities, customers surveyed for *The Frontline Experience* ranked "Made me feel comfortable that I made a good decision" as most important.

The process begins with conversations at the platform or elsewhere, designed to uncover customer needs by probing for behavioral, demographic and attitudinal information. The profiling conversation also is the bank's best opportunity to explain a product so thoroughly that the customer is spared any unpleasant surprises about price or other features later in the relationship.

Client Account Opening Services

Banks can improve and streamline their customers' experience—and increase customer loyalty and confidence—by scanning and electronically storing the documents needed to open an account. This provides a number of key benefits for both the customers and the bank, including:

- A faster, more efficient account-opening process
- Laying the groundwork for more personalized communications
- Greater data accuracy and less need for customer service or problem resolution
- Easier compliance with regulations

But profiling data also may be used on the spot to try to cross-sell the customer into a second or third appropriate product, or it may be entered into a lead-management system. This enables branch or call-center staff to engage the customer in a mutually helpful cross-selling dialogue later in the account onset period. At its most effective, profiling and needs-based selling may be linked to product packages that are specifically designed for particular customer segments or financial needs.

While banks need to focus on the first 90 days after account activation, best-practice banks understand that the needs-based approach should extend across the entire customer-account life cycle, with the broad objectives of:

- Placing customers in products that best fit their needs
- Establishing the foundation for managing the relationship going forward
- Developing a migration path for the relationship across life events
- Winning as large a share of the customer's wallet as possible

Banks that participated in the research reported additional techniques that they use with needs-based selling to enhance cross-selling and retention during the onset period

- Developing a simple evaluation process to assess customer needs and identify appropriate products and packages.
- Concluding the account opening session by engaging customers in a detailed conversation that reviews the features, functionality and fee structures of the products that have been purchased. This conversation can help to reinforce customer expectations and eliminate unpleasant surprises that may arise when customers receive their first statement.
- Providing new customers with a welcome kit containing tips, navigation tools and access to or knowledge about products or services acquired. Today, technology enables a bank to print a welcome kit for each individual customer that contains descriptions and details about only those products that a customer has purchased or indicated an interest in. The kit also encourages activation of loyalty builders such as direct deposit or online banking.
- Providing *switching kits* to ease the transition from other providers. A major reason consumers are reluctant to switch banks is the inconvenience of notifying companies that automatically debit or credit their accounts each month. In response, many banks provide online forms to help switch automatic credits such as payroll direct deposit or Social Security, and automatic debits such as utility payments to the new destination account.
- Once a new customer profile and contact list exists in the database, a bank can produce a customized switching kit that includes detailed letters of instruction to all banks, agencies, utilities and others that may be involved, a close-out letter to the old bank, and a detailed summary that includes estimated switch dates. A third-party communications provider can enable a bank to notify a new customer by mobile phone, home phone, PDA, pager, e-mail, fax or postal mail as each automatic transaction is switched to the new account.
- Providing welcome gifts to thank consumers for their business.

Follow-up and orientation show you have their interests at heart.

Follow-up is an important step toward improving cross-sell opportunities and retention after the initial sale. Several major U.S. financial institutions have established relationship orientation programs that begin with calls to new customers three times within the first two or three months of the relationship. The first call occurs a few days after account opening, when bank representatives thank new customers for their business and make sure that they are satisfied with arrangements.

Customers Appreciate Onboarding

The Frontline Experience research showed that new checking account customers who received at least one onboarding contact from their provider (versus those who did not receive any onboarding contact) experienced:

- Greater satisfaction with their provider (63 percent vs. 50 percent)
- Greater likelihood to purchase additional products (41 percent vs. 27 percent)
- Greater willingness to provide referrals (57 percent vs. 44 percent).

After a couple of weeks, the bank calls to verify the receipt and accuracy of checks, debit or ATM cards, personal identification numbers, etc.—a critical activity since errors are a major cause of attrition. The two-week follow-up also provides an opportunity to inquire about whether the new customer has additional financial services needs and to gather any information missing from the customer profiling session.

Finally, two or three months after an account is opened, the bank calls customers again to ensure that they are satisfied with their products and services. With the relationship more firmly anchored at this point, bank representatives have the opportunity to fine-tune the package of products and services being used by the customer and also to identify and meet additional needs.

At most successful banks, branch staff members make the first follow-up contacts. At others, follow-up is the responsibility of the call center, which can ensure consistency and provide monitoring. At still others, follow-up is handled through the mail. The choice of channel is often based on the bank's perception of the customer's value, but other considerations apply.

“Our bank has a system where the bank sets up orientation calls automatically with the branch representative who opened the account. If the branch rep does not make the call within a week, it automatically gets sent to a retention unit.”

(Senior Retail Executive, Large Bank)

“Our bank thought an orientation program should be high-touch branch-based, but how the contact is really executed and the quality of it is difficult to track with a branch-based program. So what we've incorporated is a call center-centric program where the branches know what is happening, but the calls are actually generated out of the call center.”

(Senior Retail Executive, Large Bank)

At top-performing banks, high-touch calling efforts may be supported by integrated marketing. Such marketing may cross channels and extend throughout the whole first year of a new customer account. Orientation, servicing and appreciation, education and needs-based selling may proceed along parallel lines. In the same week as account opening, the customer might receive a welcome kit and thank-you letter. The second week could bring checkbook and ATM/debit card fulfillment. During the third week, a customer might receive a follow-up call from the branch or call center to ensure the accuracy of materials received. At the end of the month, depending on the customer's responses to profile questions during the opening of their account, an IRA rollover reminder might be inserted with a statement, or a retirement or education brochure sent via direct mail. Three or four months or further out, a customer might receive a communication about credit or investments or invitations to a seminar. Each contact is carefully spaced throughout the period to maintain contact without overwhelming the customer.

“We were able to reduce our attrition rate last year by reaching out to new customers by mail. Our orientation program makes sure of two things: (1) if we continue to communicate with them in that three-, six- or 12-month time frame, our customers will feel closer to the bank and won't want to leave us, and (2) we must communicate our product benefits and try to get customers to upgrade or expand the relationship.”

(Retail Executive, Large Bank)

Other banks, however, limit their orientation programs to select customer segments, with the objective of maximizing ROI. Some banks have demonstrated success in supplementing follow-up calls to customers during the origination period with purchase-propensity modeling.

In interviews, bankers revealed no consensus about how often it was appropriate to contact customers for marketing purposes. They said that general leads on household contacts were supplied to branches or call centers only about every six to eight weeks, whether limited out of concern for the customer or staffing realities.

Your customers will notice when your customer service shines.

Inevitably, problems occur. Late check orders, missing ATM or debit cards or some other difficulty with a small percentage of new accounts will arise during the first 90 days. Some problems may stem from changed customer needs and not be the fault of the bank.

Banks that recognize the problem and respond effectively can turn a problem into a customer-service success, creating more trust and opportunities for cross-selling in the future. On the other hand, the inability to solve a problem quickly and fairly (from the customer's viewpoint) is a leading cause of attrition and can cost a bank an account as surely as the original problem. To reduce the likelihood of this kind of customer loss, some banks give branch staff different levels of authority to solve certain problems on the spot. That authority, if properly tracked and managed, leads to higher levels of customer satisfaction and employee commitment, both cornerstones of customer retention and profitability.

Incentives should motivate staff *and* align with bank goals.

No bank is going to reach its potential in cross-selling and retention unless incentives give front-line staff tangible reasons to actively and consistently support the bank's goals. Most bankers in the study reported they were not satisfied with their banks' alignment of incentives with needs-based selling activities.

As three-quarters of cross-selling opportunities occur during the first 90 days of an account relationship, the data suggest that a significant portion of incentives should direct staff attention to relationship-origination activities. Incentives should encourage placing customers in the right products at account opening and during cross-selling, completing critical steps in account origination—especially profiling, aiming for zero defects in product fulfillment and solving customer problems quickly and fairly.

The most common tactic to encourage front-line staff to be thorough at account opening and responsive to service requests afterward is to lag a portion of the incentive payment. For example, 50 percent of the incentive could be paid after 60–90 days based on account balance and retention. Another tactic is to provide an additional incentive for cross-sales at account opening or during the first 90 days.

Top-performing banks are migrating to a “book of business” approach, where a certain portion of a branch's customer base (usually the top 10-15 percent) is monitored by a dedicated relationship manager. The book of business approach is often implemented in connection with extra efforts to retain and expand customer relationships and pays up to 50 percent of incentives based on total balance or growth in total value of customer accounts in the book.

“Our retention rate for new customers is only 73 percent. If customers can be retained for the first 60 days, then retention rates jump significantly. Therefore, branch staff are incented half upon opening an account and half 60 days out for retaining the account.”
(Senior Retail Executive, Large Bank)

“Our bank has a two-part incentive compensation program. The first part is at account opening and the second part is at 90 days, when balance growth is checked.”
(Head of Sales, Large Bank)

Banks can't afford not to make loyalty a priority.

The battle to obtain new retail deposit relationships has intensified significantly over the past several years. Aggressive marketing and price competition are prevalent in many markets. Industry consolidation and increasing competition from nontraditional entrants will be constants. All of this points to steadily increasing costs to acquire new deposit relationships and longer payback periods for positive returns on initial marketing and sales investments.

The ability to acquire new customers will be a core competency that will separate the winners from the losers in the quest for deposits. The research suggests that high-performing banks will be those that also become skilled at managing and growing customer relationships through the first 90 days after account opening.

Carefully targeted communications during the first weeks and months of a bank's relationship with a new customer are critically important. With the right communications providers, banks can implement these targeted communications and reach their cross-selling and retention goals for every hard-won customer.

Communication engineering is an important tool for these providers to ensure appropriate targeting. It relies on current techniques in document design to improve the effectiveness of key documents. Documents are structured in a way that accelerates desired customer behaviors, reduces customer service costs and builds customer loyalty. By initiating a series of personally relevant communications, banks can build deeper, more lasting relationships with their customers.

The all-important first impression the bank makes on a prospective customer may be shaped by the bank's marketing to those prospects. At this juncture, the bank knows something about the needs and preferences of customer segments, but little about the individuals who will receive its communications. Prospects' mailboxes bulge with correspondence, solicitations and special deals, many of them from financial services companies. Most of those mass mailers will never be opened because they all look the same. The challenge is to differentiate communications enough that the message actually gets through to the prospect.

The quality of a bank's marketing depends on the quality of the demographic, behavioral and attitudinal information it collects on customers and customer segments. Modern digital document assembly systems integrate customer data in a bank's database with a bank's electronic inventories of brochures, catalogs, fulfillment literature, direct mail and statements. Details about individual customers or targeted segments can be placed in a bank's own document templates, building brand recognition.

Incorporating variables in documents such as the customer's name, product type, life event and design is the key to generating response rates that far outstrip the typical 0.5–2 percent expected from direct-mail campaigns. One study found that addition of CRM data and color to a direct mail campaign resulted in a 34 percent faster response time, a 48 percent increase in repeat orders, a 25 percent greater average order value and a 32 percent increase in revenue over a nonpersonalized, black-and-white campaign.¹

At the high-performing banks that took part in the study, any response from a prospect—by phone, Web or face to face—is an opportunity to acquire data about customer life stage, attitudes and other needs and preferences. Those contacts are followed up promptly, usually with documents. Those documents are built around the new level of information available in the database to increase the message's relevance and make it more personal. Rapid production of database-driven, individualized documents can shorten the sales cycle, increasing the likelihood that a customer will accept a proposal.

It's all about giving a personal welcome.

It's clear that when a prospect has been converted to a customer, a critical period has begun. The welcome is vital. But at many banks, a welcome kit is a static package. Customers are left to tear open an envelope full of brochures, pull out the ones relevant to products they just bought, and throw the rest away. Today, printing on demand enables high-performing banks to quickly identify and provide only documents relevant to what customers signed up for.

¹ David Broudy, Frank Romano. *An Investigation: Direct Mail Response Based on Color, Personalization, Database and Other Factors*.

Once a customer has acquired a checking account, package or other first product, the focus shifts to cross-selling, particularly bringing the customer to desire another product, such as credit, that strengthens the bond between bank and customer. To make this cross-selling more effective, technology can be used to make document-supported promotion throughout the customer life cycle essentially one to one. Rules embedded in software can ensure that documents for a young family never include an image of a silver-haired couple enjoying retirement.

At high-performing banks, checking account statements or other routine notifications are communication opportunities bolstered by the merger of customer information and modern document production capabilities. This merger substantially improves the odds of selling the right product to the right person as it enables a bank to communicate offers in terms that customers or prospects will readily understand, through the channel they prefer, and at a time when they are open to receiving it.

Over time, constantly relevant communications may be one of the best ways a bank can create satisfied, long-term customers.

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