SCS–BASED TRAINING PACKAGE ON SALES PROSPECTING IN RETAIL BANKING

2016

Table of Contents - Sales Management Process

OVERVIEW

i. Qualifications Framework

This set of learning materials describes the performance outcomes, skills and knowledge required to conduct the complete sales prospecting cycle. The steps are:

(1) Fact finding
(2) Risk appetite analysis
(3) Products-needs matching
(4) Product presentation
(5) Buying signals
(6) Closing the deal
(7) Account monitoring

The majority of the contents here is pitched at QF Level 4 and caters to bank frontline staff. There are four Units of Competency with fifteen Credits. They are:

Unit of Competency BRSRSS501A (Level 5 with 4 Credits)	**Performance Requirements**
Develop recommendations on bank products and services to customers	1. Analyze financial needs and risk appetite of customers and be able to: • Analyze customer information such as their financial needs and investment preferences, risk bearing ability, protection requirements and expected return rates on investment so as to identify suitable products and services • Evaluate the financial needs of customers and their risk appetite against the features of different products and services in order to identify the most suitable solutions to their needs
	2. Identify suitable products and services based on the analyses and be able to: • Develop a profile of product prospects with consideration of the risk acceptance level of individual customer • Develop financial planning recommendations with experts or product specialists if necessary to match sophisticated customers' needs • Evaluate alternative financial product packages based on knowledge of bank products, cost and benefit analysis and genuine customer needs • Analyze customer's risk in investment portfolio on a regular basis and advise suitable products and services to balance the risks
Unit of Competency BRSRSS402A (Level 4 and 4 Credits)	**Performance Requirements**
Explain recommendations on bank products and services to customers	1. Understand the financial needs of customers and be able to: • Understand the features of different kinds of products and services of the bank in order to recommend suitable products to customers • Gather critical customer information from records or

	conversations in order to understand the financial needs of customers
	2. Present recommendation according to bank's guidelines and be able to: • Present product recommendations by clearly specifying sound reasoning i.e. how features of recommended products tie in with customer needs and provide benefits • Check mutual understanding by probing and summarizing customer needs and explaining clearly the risks of the recommended products and services with the customers • Promote and cross-sell bank products and services in accordance to customer needs • Communicate with prospective customers in accordance to the bank's guidelines and professional ethics
	3. Employ different communication skills to ensure customer's understanding and be able to: • Communicate precisely and concisely and in a manner that matches with the interactive style of customers • Check customer understanding and ask for acceptance of recommendations tactfully
Unit of Competency **BRSRSS404A** **(Level 4 and 4 Credits)**	**Performance Requirements**
Gain customer commitment in buying products and services	1. Read the signal of customers to determine the pace of proceeding and be able to: • Identify buying signals of customers during the interaction and adjust the pace of selling accordingly • Watch out for customer's emotions behind the words to prevent from initiating the closing of the deal when he/she is in a negative emotional state • Ask permission to proceed on closing the deal and observe customer's response to determine if the sales process is on the right track
	2. Close the deal by using a variety of persuasion skills appropriate in different situations and be able to: • Conduct incremental closing to engage customer commitment to recommended products • Close the deals by using a variety of persuasion techniques in appropriate time • Ask for commitment to obtain/provide more relevant information or agree on a time for next meeting as intermediate goals and closure to move the sale forward if immediate closing is deemed to be inappropriate
	3. Understand bank guidelines and comply to the requirements and be able to: • Use selling approaches which are consistent with bank's guidelines and general professional ethics of the industry in order to prevent complaints from customers • Understand and act in accordance to the principle that all sales are initiated for the benefits of the bank and customers; only products

	or services genuinely tied in with customer's needs are recommended
Unit of Competency BRSDSB303A (Level 3 and 3 Credits)	**Performance Requirements**
Perform cross-selling to help promote bank products and services in branches	1. Understand procedures in cross selling and be able to: • Understand the basic features in the bank's products in order to provide suitable information to customers • Understand relevant regulations and code of conduct on cross-selling in order to prevent breaching of law
	2. Promote products and services in branches and be able to: • Distribute product information (e.g. posters and leaflets) to customers which are relevant to their financial needs • Follow the guidelines to introduce features of the promotional items of products and services to customers
	3. Provide appropriate products and services information to customers and be able to: • Handle customers' enquiries on different products and services • Refer customers to relevant business or operation units as and when required

ii. User Guide

- Retail banking (also known as consumer banking or mass-market banking) covers a wide spectrum of products & services, ranging from the traditional savings & loans to the more sophisticated investment & insurance products. Therefore, this training package tries to provide the most generic skills required by frontline staff in retail banking and is by no means exhaustive. These materials are not intended to cater to non-retail banking frontline staff and hence parties should adopt this Training Package with cautions. Hong Kong Council for Accreditation of Academic and Vocational Qualifications (HKCAAVQ) or other pertinent parties such as Author are not legally responsible for any consequences associated with the use of this Training Package.

- These materials are also based on the identification of the skills and knowledge as defined in the Intended Learning Outcomes (ILO) that contribute to sales management.

- These materials were produced by a group of professionals including educationalists, experienced trainers and practitioners in the banking field.

- As bank products and compliance requirements are intertwined and always changing, retail banking staff and trainers should always keep up to date with the bank's and regulators' new policies and guidelines so as to sharpen their skills and knowledge.

- As a trainer, you are free to add or delete sections to suit your different training needs. You can also make reference to the Guidelines to Trainer after each step.

iii. Pre-requisites

- There is no specific pre-requisite for the learners. However, some experience in marketing retail banking products and a reasonable proficiency in business English are necessary for participants to apply the concepts meaningfully to real life scenarios.
- On the other hand, trainers should possess certain years of practical experience in the design & delivery of retail banking sales skills training. They should also have a reasonable proficiency in business English to understand and modify this training package. Last but not the least, trainers should be able to conduct an extensive research to ensure the accuracy and appropriateness of the skills & knowledge being taught to target learners by the time of class commencement.

iv. Intended Learning Outcomes ("ILOs")

After completing the training package, learners should be able to:

Develop recommendations on bank products and services to customers (BRSRSS501A) • Appreciate the importance of understanding the financial needs and risk appetite of customers • Conduct financial needs and risk appetite analyses of customers • Identify, develop, evaluate and analyze suitable products and services based on customers' genuine financial needs and risk appetite analyses
Explain recommendations on bank products and services to customers (BRSRSS402A) • Appreciate the importance of understanding the financial needs of customers • Conduct financial needs analysis of customers • Present, communicate and recommend suitable products and services to cater to the financial needs and risk appetite of customers and in compliance with bank guidelines • Cross-sell suitable products and services to cater to the financial needs and risk appetite of customers and in compliance with bank guidelines
Gain customer commitment in buying products and services (BRSRSS404A) • Identify customers' buying signals to determine the pace of proceeding and act accordingly • Understand different types of persuasion techniques • Understand do's and don'ts of persuasion • Use various persuasion techniques to close a deal • Present, communicate and recommend suitable products and services to cater to the financial needs and risk appetite of customers and in compliance with bank's guidelines
Perform cross-selling to help promote bank products and services in branches (BRSDSB303A) • Appreciate the benefits and downsides of cross selling • Identify cross-selling opportunities and refer customers to relevant business units as and when required • Cross-sell suitable products and services to cater to the financial needs and risk appetite of customers and in compliance with relevant laws and regulations • Present, communicate and recommend suitable products and services to cater to the financial

needs and risk appetite of customers and in compliance with bank's guidelines

v. Learning Methodology, Assessment Exercises and Cases and Assessment Rubric

- There are a total of 15 credits for the 4 units of competency, the notional learning hours for learners to acquire the competencies for the 4 units of competency should be 150 hours. Trainers may divide the learning into, say 30 hours of classroom learning, and 120 hours of self-paced learning or other ratios depending upon the background and experiences of learners. Here is an approach for reference.

Learning Mode	Suggested Duration
Classroom training	30 hours
On-job training	75 hours
Self-study	20 hours
Course assignments	25 hours

- The whole training package consists of seven steps of the selling process. To cover the different steps of the selling process, you will find 8 activities and 13 exercises/case studies. There are also two comprehensive case studies that integrate the main concepts of the selling process. You will also find guidelines to trainers for activities, suggested responses to the case studies and answers to the exercises in the Trainer's Guide. Given the nature of the subject, the guidelines to trainers and suggested responses to the case studies are not exhaustive and trainers are free to amend the guidelines and responses as required.
- Assessment rubric is provided to gauge the performance of learners. For activities, skill competencies that must be identified by learners are stipulated. For case studies, key points that must be identified by learners are listed. For exercises, suggested answers were stipulated.
- Assessment rubric for in-class activities and case studies in this training package is devised as follows:
  1. Distinction: identification and full elaboration of all suggested skill competencies and key points and additional insightful points provided by learners
  2. Pass: identification and full elaboration of all suggested skill competencies and key points
  3. Marginal Fail: identification and full elaboration of most suggested skill competencies and key points. The specific definition of "most" is stipulated in "Instructions for trainer" in each in-class activity and case study.
  4. Fail: identification and full elaboration of part of suggested skill competencies and key points. The specific definition of "part" is stipulated in "Instructions for trainer" in each in-class activity and case study
- Assessment rubric for exercises in this training package is devised as follows:
- The total score for each exercise is 100.
  1. Distinction: 80% to 100%
  2. Pass: 65% to 79%
  3. Marginal Fail: 40% to 64%
  4. Fail: <40%

The objective of devising the assessment rubric into a four-scale framework is to provide finer differentiation so that trainers can discriminate performances among learners against stipulated criteria.

vi. Mapping of Seven Steps of Selling Process to Performance Requirements

Selling Process	**Competency**	**Performance Requirement**	**Assessment Methods**
Step 1: Facts Finding	Develop recommendations on bank products and services to customers	1. Analyze financial needs and risks appetite of customers and be able to: • Analyze customer information such as their financial needs and investment preferences, risk bearing ability, protection requirements and expected return rates on investment so as to identify suitable products and services	Activity Case Studies Exercises
		• Evaluate the financial needs of customers and their risk appetite against the features of different products and services in order to identify the most suitable solutions to their needs	Activity Case Studies Exercises
		2. Identify suitable products and services based on the analyses and be able to: • Develop a profile of product prospects with consideration of the risk acceptance level of individual customer	Activity Case Studies Exercises
		• Develop financial planning recommendations with experts or product specialists if necessary to match sophisticated customers' needs	Activity Case Studies Exercises
		• Evaluate alternative financial product packages based on knowledge of bank products, cost and benefit analysis and genuine customer needs	Activity Case Studies Exercises
		• Analyze customer's risk in investment portfolio on a regular basis and advise suitable products and services to balance the risks	Activity Case Studies Exercises
	Explain recommendations on bank products and services to customers	1. Understand the financial needs of customers and be able to: • Understand the features of different kinds of products and services of the bank in order to recommend suitable	Activity Case Studies Exercises

		products to customers	
		• Gather critical customer information from records or conversations in order to understand the financial needs of customers	Activity Case Studies Exercises
Step 2: Risk Appetite Analysis	Develop recommendations on bank products and services to customers	1. Analyze financial needs and risks appetite of customers and be able to: • Analyze customer information such as their financial needs and investment preferences, risk bearing ability, protection requirements and expected return rates on investment so as to identify suitable products and services	Activity Case Studies Exercises
		• Evaluate the financial needs of customers and their risk appetite against the features of different products and services in order to identify the most suitable solutions to their needs	Activity Case Studies Exercises
		2. Identify suitable products and services based on the analyses and be able to: • Develop a profile of product prospects with consideration of the risk acceptance level of individual customer	Activity Case Studies Exercises
		• Develop financial planning recommendations with experts or product specialists if necessary to match sophisticated customers' needs	Activity Case Studies Exercises
		• Evaluate alternative financial product packages based on knowledge of bank products, cost and benefit analysis and genuine customer needs	Activity Case Studies Exercises
		• Analyze customer's risk in investment portfolio on a regular basis and advise suitable products and services to balance the risks	Activity Case Studies Exercises
	Explain recommendations on bank products and services to customers	1. Understand the financial needs of customers and be able to: • Understand the features of different kinds of products and services of the bank in order to recommend suitable products to customers	Activity Case Studies Exercises
		• Gather critical customer information from records or conversations in order	Activity Case Studies Exercises

		to understand the financial needs of customers	
Step 3: Products-needs matching	Develop recommendations on bank products and services to customers	1. Analyze financial needs and risks appetite of customers and be able to: • Analyze customer information such as their financial needs and investment preferences, risk bearing ability, protection requirements and expected return rates on investment so as to identify suitable products and services	Activity Case Studies Exercises
		• Evaluate the financial needs of customers and their risk appetite against the features of different products and services in order to identify the most suitable solutions to their needs	Activity Case Studies Exercises
		2. Identify suitable products and services based on the analyses and be able to: • Develop a profile of product prospects with consideration of the risk acceptance level of individual customer	Activity Case Studies Exercises
		• Develop financial planning recommendations with experts or product specialists if necessary to match sophisticated customers' needs	Activity Case Studies Exercises
		• Evaluate alternative financial product packages based on knowledge of bank products, cost and benefit analysis and genuine customer needs	Activity Case Studies Exercises
		• Analyze customer's risk in investment portfolio on a regular basis and advise suitable products and services to balance the risks	Activity Case Studies Exercises
	Explain recommendations on bank products and services to customers	1. Understand the financial needs of customers and be able to: • Understand the features of different kinds of products and services of the bank in order to recommend suitable products to customers	Activity Case Studies Exercises
		• Gather critical customer information from records or conversations in order to understand the financial needs of customers	Activity Case Studies Exercises
		• Promote and cross-sell bank products	Activity Case Studies

		and services in accordance with customer needs	Exercises
	Gain customer commitment in buying products and services	• Ask for commitment to obtain/provide more relevant information or agree on a time for next meeting as intermediate goals and closure to move the sale forward if immediate closing is deemed to be inappropriate	Activity Case Studies Exercises
		3. Understand bank guidelines and comply with the requirements; and be able to: • Use selling approaches which are consistent with bank guidelines and general professional ethics of the industry in order to prevent complaints from customers • Understand and act in accordance with the principle that all sales are initiated for the benefit of the bank and customer; only products or services genuinely tied in with customer's needs are recommended	Activity Case Studies Exercises
	Perform cross-selling to help promote bank products and services in branches	1. Understand procedures in cross selling and be able to: • Understand the basic features in the bank's products in order to provide suitable information to customers	Activity Case Studies Exercises
		• Understand relevant regulations and code of conduct on cross-selling in order to prevent breaching of the law	Activity Case Studies Exercises
		3. Provide appropriate products and services information to customers and be able to: • Handle customer enquiries on different products and services	Activity Case Studies Exercises
		• Refer customers to relevant business or operation units as and when required	Activity Case Studies Exercises
Step 4: Products Presentation	Explain recommendation on bank products and services to customers	2. Present recommendation according to bank's guidelines and be able to: • Present product recommendations by clearly specifying sound reasoning i.e. how features of recommended products tie in with customer needs and provide benefits	Activity Case Studies Exercises

		• Check mutual understanding by probing and summarizing customer needs and explaining clearly the risks of the recommended products and services with the customers	Activity Case Studies Exercises
		• Communicate with prospective customers in accordance with the bank's guidelines and professional ethics	Activity Case Studies Exercises
	Perform cross-selling to help promote bank products and services in branches	2. Promote products and services in branches and be able to: • Distribute product information (e.g. posters and leaflets) to customers which are relevant to their financial needs	Activity Case Studies Exercises
		• Follow the guidelines to introduce features of the promotional items of products and services to customers	Activity Case Studies Exercises
Step 5: Buying Signals	Explain recommendation on bank products and services to customers	3. Employ different communication skills to ensure customer's understanding and be able to: • Communicate precisely and concisely and in a manner that matches with the interactive style of customers	Activity Case Studies Exercises
		• Check customer understanding and ask for acceptance of recommendations tactfully	Activity Case Studies Exercises
	Gain customer commitment in buying products and services	1. Read the signal of customers to determine the pace of proceeding and be able to: • Identify buying signals of customers during the interaction and adjust the pace of selling accordingly	Activity Case Studies Exercises
		• Ask for commitment to obtain/provide more relevant information or agree on a time for next meeting as intermediate goals and closure to move the sale forward if immediate closing is deemed to be inappropriate	Activity Case Studies Exercises
Step 6: Closing the deal	Gain customer commitment in buying products and services	1. Read the signals from customers to determine the pace of proceeding and be able to: • Read the customer's emotions behind the words to prevent initiating the closing of the deal when he/she is in a negative emotional state	Activity Case Studies Exercises

		• Ask permission to proceed with closing the deal and observe customer's response to determine if the sales process is on the right track according to the principle that all sales are initiated for the benefit of the bank and customer; only products or services genuinely tied in with customer's needs are recommended	Activity Case Studies Exercises
		2. Close the deal by using a variety of persuasion skills appropriate in different situations and be able to: • Conduct incremental closing to engage customer commitment to recommended products	Activity Case Studies Exercises
		• Close the deal by using a variety of persuasion techniques at the appropriate time	Activity Case Studies Exercises

vii: Mapping of Performance Requirements to Seven Steps of Selling Process

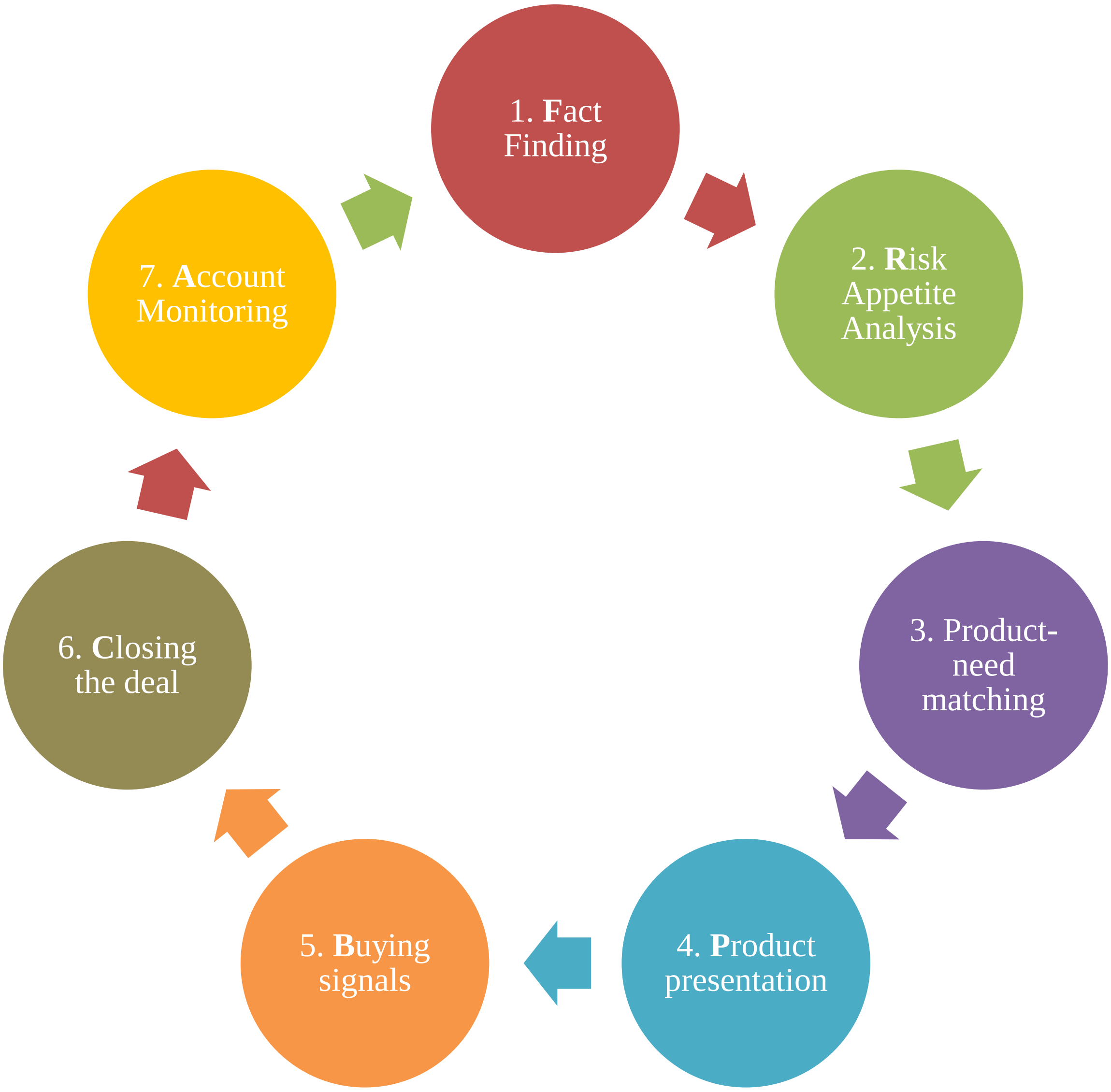
Competency	**Performance Requirement**	**Corresponding Topics**	**Assessment Method**
Develop recommendations on bank products and services to customers	1. Analyze financial needs and risks appetite of customers and be able to: • Analyze customer information such as their financial needs and investment preferences, risk bearing ability, protection requirements and expected return rates on investment so as to identify suitable products and services	Step 1: Fact finding Step 2: Risk Appetite Analysis Step 3: Products-needs matching	Case studies Exercises: 1-5, 12-13
	• Evaluate the financial needs of customers and their risk appetite against the features of different products and services in order to identify the most suitable solutions to their needs	Step 1: Fact finding Step 2: Risk Appetite Analysis Step 3: Products-needs matching	Case studies Exercises: 1-5 12-13
	2. Identify suitable products and services based on the analyses and be able to: • Develop a profile of product prospects with consideration of the risk acceptance level of individual customer	Step 1: Fact finding Step2: Risk Appetite Analysis Step 3: Products-needs matching	Case studies Exercises: 1-5 12-13

	• Develop financial planning recommendations with experts or product specialists if necessary to match sophisticated customers' needs	Step 1: Fact finding Step 2: Risk Appetite Analysis Step 3: Products-needs matching	Case studies Exercises: 1-5 12-13
	• Evaluate alternative financial product packages based on knowledge of bank products, cost and benefit analysis and genuine customer needs	Step 1: Fact finding Step 2: Risk Appetite Analysis Step 3: Products-needs matching	Case studies Exercises: 1-5 12-13
	• Analyze customer's risk in investment portfolio on a regular basis and advise suitable products and services to balance the risks	Step 1: Fact finding Step 2: Risk Appetite Analysis Step 3: Products-needs matching	Case studies Exercises: 1-5 12-13
Explain recommendations on bank products and services to customers	1. Understand the financial needs of customers and be able to: • Understand the features of different kinds of products and services of the bank in order to recommend suitable products to customers	Step 1: Fact finding Step 2: Risk Appetite Analysis Step 3: Products-needs matching	Case studies Exercises: 1-5 12-13
	• Gather critical customer information from records or conversations in order to understand the financial needs of customers	Step 1: Fact finding Step 2: Risk Appetite Analysis Step 3: Products-needs matching	Case studies Exercises: 1-5 12-13
	2. Present recommendation according to bank's guidelines and be able to: • Present product recommendations by clearly specifying sound reasoning i.e. how features of recommended products tie in with customer needs and provide benefits	Step 4: Product Presentation	Case studies Exercises: 1-5 12-13
	• Check mutual understanding by probing and summarizing customer needs and explaining clearly the risks of the recommended products and services with the customers	Step 4: Product Presentation	Case studies Exercises: 1-5 12-13
	• Promote and cross-sell bank products and services in accordance with customer needs	Step 3: Products-needs matching	Case studies Exercises: 1-5 12-13
	• Communicate with prospective customers in accordance with the bank's guidelines and professional	Step 4: Product Presentation	Case studies Exercises: 1-5 12-13

	ethics		
	3. Employ different communication skills to ensure customer's understanding and be able to: • Communicate precisely and concisely and in a manner that matches with the interactive style of customers	Step 5: Buying Signals	Exercise and case studies Exercise 10 & 11
	• Check customer understanding and ask for acceptance of recommendations tactfully	Step 5: Buying Signals	Exercise and case studies Exercise 10 & 11
Gain customer commitment in buying products and services	1. Read the signal of customers to determine the pace of proceeding and be able to: • Identify buying signals of customers during the interaction and adjust the pace of selling accordingly	Step 5: Buying Signals	Exercise and case studies Exercise 10 & 11
	• Watch out for customer's emotions behind the words to prevent from initiating the closing of the deal when he/she is in a negative emotional state	Step 6: Closing the deal	Exercise and case studies Exercise 11& 12-13
	• Ask permission to proceed with closing the deal and observe customer's response to determine if the sales process is on the right track according to the principle that all sales are initiated for the benefit of the bank and customer; only products or services genuinely tied in with customer's needs are recommended	Step 6: Closing the deal	Exercise and case studies Exercise 11& 12-13
	6.2 Close the deal by using a variety of persuasion skills appropriate in different situations and be able to: • Conduct incremental closing to engage customer commitment to recommended products	Step 6: Closing the deal	Exercise and case studies Exercise 11 & 12-13
	• Close the deal by using a variety of persuasion techniques at the appropriate time	Step 6: Closing the deal	Exercise and case studies Exercise 11& 12-13
	• Ask for commitment to obtain/provide more relevant information or agree on a time for next meeting as	Step 3: Products-needs matching Step 5: Buying signals	Exercises and case studies Exercise 1-5 & 10

	intermediate goals and closure to move the sale forward if immediate closing is deemed to be inappropriate		
	3. Understand bank guidelines and comply with the requirements; and be able to: • Use selling approaches which are consistent with bank guidelines and general professional ethics of the industry in order to prevent complaints from customers • Understand and act in accordance with the principle that all sales are initiated for the benefit of the bank and customer; only products or services genuinely tied in with customer's needs are recommended	Step 3: Products-needs matching	Case studies Exercise 1-5 & 12-13
Perform cross-selling to help promote bank products and services in branches	1. Understand procedures in cross selling and be able to: • Understand the basic features in the bank's products in order to provide suitable information to customers	Step 3: Products-needs matching	Case studies Exercise 1-5 & 12-13
	• Understand relevant regulations and code of conduct on cross-selling in order to prevent breaching of the law	Step 3: Products-needs matching	Case studies Exercise 1-5 & 12-13
	2. Promote products and services in branches Be able to: • Distribute product information (e.g. posters and leaflets) to customers which are relevant to their financial needs	Step 4: Product Presentation	Case studies Exercise 1-5 & 12-13
	• Follow the guidelines to introduce features of the promotional items of products and services to customers	Step 4: Product Presentation	Case studies Exercise 1-5 & 12-13
	3. Provide appropriate products and services information to customers Be able to: • Handle customer enquiries on different products and services	Step 3: Products-needs matching	Case studies Exercise 1-5 & 12-13
	• Refer customers to relevant business or operation units as and when required	Step 3: Products-needs matching	Case studies Exercise 1-5 & 12-13

viii. Seven Steps of the Selling Process (at-a-glance)



ix. Background and Foundation: Highlights of basic regulatory requirements and standards

For retail banking sales activities, trainers and learners should note the essential background information listed below.

1. The Securities and Futures Commission (SFC) may, upon application by an Authorized Institution (AI), register the applicant for carrying out one or more regulated activities (other than Type 3 and Type 8) specified by the SFC. For definitions of each of the regulated activities, please refer to Schedule 5 of the Securities and Futures Ordinance.
2. Under the Banking Ordinance, every Registered Institution (RI) is required to submit specified particulars of its relevant individuals to the Monetary Authority (HKMA) for the inclusion of such individuals' particulars in the HKMA Register. Such particulars are available for public inspection in the form of an on-line record on the HKMA public website.
3. Only those individuals whose names are entered in the HKMA Register may engage in any regulated function of any regulated activity of a RI. It is a statutory condition of registration for a RI to ensure that its relevant individuals are fit and proper to be so engaged. In determining whether an individual is and remains fit and proper to be a relevant individual, RIs should ensure that the individual concerned meets the Fit and Proper Guidelines, the Guidelines on Competence and the Guidelines on Continuous Professional Training issued by the SFC. RI should, among other things, also refer to HKMA Supervisory Policy Manual SB-1 Supervision of Regulated Activities of SFC-Registered Authorized Institutions and the SFC's Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.
4. Since the Lehman Brothers incident in 2008, the regulatory landscape of investment products selling has been changed significantly for retail banking customers. This includes, among other things, the HKMA's enhanced investor protection measures:-

   - Clearer differentiation in respect of physical, staff and data segregation of traditional deposit-taking activities and retail securities business
   - Inclusion of health warning statement to structured products and derivatives
   - Separation of risk assessment and sales process
   - Mandatory audio-recording of the sales process
   - Handling of risk mismatch between customer risk profile and product risk rating

   For details, please refer to HKMA's guideline dated 25 March 2009 Implementation of recommendations in the HKMA's Report on Issues Concerning the Distribution of Structured Products Connected to Lehman Brothers.

5. Over the past few years the HKMA has been engaging the banking industry on various initiatives to promote a stronger corporate culture among banks of treating their consumers fairly. The HKMA has worked with the industry to develop the Treat Customers Fairly ("TCF") Charter as a catalyst for fostering a stronger risk culture towards fair treatment of customers at all levels of banks and at all stages of their relationship with customers. The Charter incorporates five high-level principles and is primarily aimed at retail consumers. The TCF principles are summarised as below:

   - Banking services and products should be designed to meet the needs of customers.
   - Banks should set out and explain clearly the key features, risks and terms of the products, including any fees, commissions or charges applicable to customers.
   - All promotional materials and information designed for customers should be accurate and understandable.

- Banks should provide customers with reasonable channels to submit claims, make complaints, seek redress, and should not impose unreasonable barriers on customers to switch banks.
- Banks in Hong Kong that engage in mass retail market should provide reasonable access to basic banking services to members of the public, paying special attention to the needs of vulnerable groups.

The above should be read in conjunction with the HKMA Guideline dated 28 October 2013 Treat Customers Fairly Charter.

6. In sum, the trend in recent years is to cultivate an industry culture that moves from a mechanical compliance to a proper and customer-centric mindset, ethical values and culture which contributes to the competitiveness and sustainability of the industry in the long-run.

Step 1: Fact Finding – Understand and analyze customers' genuine financial needs

1.1 Intended Learning Outcomes (ILOs)

On completion of this Step, learners should be able to:

- Appreciate the benefits of understanding customer's genuine financial needs
- Understand genuine financial needs of retail banking customers
- Use general principles including life stages of customers to determine customer's genuine needs
- Conduct fact finding on customer

1.2 Benefits of understanding customers' genuine financial needs

Retail banks today are under pressure not only to grow business, but also need to maintain a level of competence, professionalism and ethical behavior in order to satisfy the requirement that is fit and proper to remain licensed and registered. Banks cannot merely take whatever products are available and then sell them to customers. The new business model is to take the time and make the effort to understand a customer's needs. This will yield enormous benefits to banks and customers. The benefits are as follows:

- By understanding the needs of customers, banks focus on providing an overall solution to address a customer's needs with proactive and knowledgeable recommendations - rather than selling discrete products in isolation.
- Product recommendations will be aligned with a customer's needs. This will create value in the customer's relationship with the bank. Based on an accurate needs assessment, the bank can establish credibility with a customer by providing solutions of value.
- On top of complying with the requirements from regulators to assess the needs of customers and the suitability of the financial products, protecting customer's interests and practicing proper business conduct are crucial for gaining customer's trust, which will be conducive to more business in the long run. After conducting a needs analysis, a bank might consider that a product is not suitable for a customer. Therefore, the bank should not solicit or recommend the customer to purchase this product.

1.3 Fact finding on customer

Every interaction, whether sales or service related, should start with an attempt to identify the customer. This gives the bank the context for the interaction and ensures that the customer has a seamless dialogue that takes into account all of their previous interactions. (Customer information should be held in a central repository/data-store so that pertinent bank employees can access it in a timely and secure manner). However, please note the restricted access requirements according to the bank's internal policy and the segregation of data between traditional banking and investment activities.

The first step in the sales process is to engage in fact finding with the target customer. Based on these facts, Relationship Managers (RM) will understand a customer's genuine financial needs.

The customer may already have an account with your bank or another bank and so all the customer's basic personal demographic and financial data will already be available. Then, the staff can conduct a portfolio review to determine further information about the customer's overall financial position. The portfolio is the collection of assets and liabilities a customer has with the bank. Even though the RM might not obtain all the material information required in the fact-finding process, the RM can obtain other material information from subsequent encounters with the customer.

Some examples of basic demographic and personal information to be extracted from preliminary fact finding are:

- Marital status: single, married, widow(er)/divorced
- Number of dependent children
- Employment status: self-employed, employed, housewife, retired, student and others. Who is the employer and the income level?
- Where is salary or regular income paid? Salary account with the bank or other banks?
- What investments or savings are held?
- Credit cards held, personal credit and loan facilities obtained
- Residential status: home owning, renting, living with parents, etc. For home owning, whether a mortgage is taken out or mortgage free.

Some examples of financial information to be extracted from a portfolio review are:

- Personal net worth position: assets, liabilities and net worth of the customer
- Income and expenditure position: major income and expenditure of the customer
- Portfolio summary: class of assets invested, portion of each class and diversification effect, investments of the customer resided at the bank or other banks

1.4 Needs of retail banking customers

After obtaining basic information and performing a portfolio review, the life stage of that particular customer can then be used to assess the financial needs of the customer. Normally, retail banking customers have four basic needs.

a) **Operational needs:** customers need bank accounts and services to hold cash and make transactions safely.
b) **Credit needs:** these range from personal loans to mortgage loans and enable investment and economic advancement.
c) **Risk management needs:** customers need to protect themselves against a range of risks that can not be borne by them individually.
d) **Savings and wealth creation needs:** customers need to invest their money to create wealth for a better life.

1.5 Catering to the customer's genuine financial needs based on life stages

In general, the life stages of a customer can be divided into education and graduation, entering workforce, financial independence, marriage, having children, job changes/business ownership and living in retirement and leaving a legacy. In addition to the different stages, there are immediate needs; and long-term goals and needs. The following are examples of immediate and long-term needs for each life stage.

Education and Graduation:	The customer may still rely on financial help from parents or other family members. The immediate financial need may be more on an operational basis such as use of a university credit card to pay for daily expenses. The long-term need may be credit to finance tuition.
Entering workforce:	Laying the right foundation when starting a career is the key to future financial success. Time is the greatest asset. Young adults may have to learn to manage savings and spending within the constraints of a meager income. The immediate financial need may still be more on an operational basis, but the long-term need may be saving through investment vehicles. The customer can also explore credit needs such as loans to finance further education and risk management needs such as insurance for protection.
Financial independence:	As the number of working years increases, earnings and net worth also increase. If there are immediate credit needs, these might be for larger amounts of credit such as a car loan or the need to accumulate wealth to meet a short term need such as saving for marriage. The long-term wealth creation need may be asset building for a nest egg, which calls for more long-term investment vehicles such as bonds. Risk management needs can be fulfilled through the purchase of insurance products to mitigate contingencies.
Marriage:	With all the demands of a family, a customer's financial needs turn towards how to support a family. The immediate credit need may be a mortgage loan to purchase a property for a small family. Also, as the head of household has a spouse to take care of, risk management needs start to play a key role.
Having children:	A customer may have an immediate need to choose an education fund for children and additional insurance to cover the child. The long-term credit need may also increase, for example for a bigger mortgage loan to acquire a bigger property. The customer may also need to contemplate a retirement plan and fulfill the need for wealth creation.
Job Changes/Business ownership:	If a customer changes to a new job with greater responsibilities, he may have a higher income to support larger savings or investments. He may also have more resources to invest for the long-term. The need for wealth creation can dominate. In addition, if he becomes an owner of a business, he may have immediate credit needs to finance his business. For the longer term, he may need more long-term credit to support investment, for example in machinery.
Living in retirement and leaving a legacy:	When a customer enters retirement age, he needs to plan ahead for the sudden loss of regular income. His immediate financing need is how to fund his expenditure during retirement. His long-term financing need may be consolidating assets, distributing assets and estate planning.

1.6 General principles determining customers' genuine financial needs

Other than life stages, the following general principles can help an RM to determine the genuine needs of customers:

- **Differentiating needs and wants:** needs are the basic requirements for human survival and an extended part of banking needs in life such as bank accounts or credit cards. Wants are something nice to have, but usually associated with a higher cost. For example, you need a credit card to pay for products or services where providers do not accept cash. However, a black card with high annual fees can be a want in many customers' mind. Therefore, the bank should consider the genuine needs of the customer. If a customer only needs a basic credit card for general spending, the bank should not offer a black card.
- **Customers are unique:** every customer is unique and their individual circumstances will dictate their unique banking needs. Banks can evaluate these individual circumstances to recommend suitable banking products and services. For example, a customer with children studying overseas may need telegraphic transfer and foreign exchange services.
- **Probe for goals and needs:** probing the goals of a customer during the fact-finding process can help to determine the genuine financial need of the customer. A customer looking for pure protection from misfortunes may only need term insurance rather than elaborate long term insurance with a saving element.
- **Identify past patterns:** a bank can use a customer's past pattern of utilization or statistics on a bank product and services to gauge whether a customer has such a genuine need. For example, a very risk aversive customer who has no record of trading in their stock trading accounts at different banks may not need a stock trading account.

1.7 Questioning skills for fact finding purpose

Before the meeting:

- Find out as much as possible about the customer before meeting. Use the personal information of the customer maintained in the bank to identify the life stage of the customer and which needs (operational, credit, risk management and savings and wealth creation) of the customer are likely to prevail. This can provide direction for your fact finding mission.
- Find out when the customer prefers to talk. Lunch hour or after work hours may generally be preferable to working hours for salaried employees.
- If the talk is by phone, ring at the right time. People are naturally more responsive in the morning. Avoid the stock market opening time such as 9:30 in the morning as quite a number of customers are placing orders during that time or they are simply interested to know the direction when the stock market opens.
- If the talk is by phone, remember to spell out your name and staff ID number to establish the authenticity of your call so that you will not be mistaken by the customer as a phone scam. This is very important because you are extracting personal and sensitive information from customers. You can also provide a telephone number so customers can call to verify your identity and increase their confidence.

During the meeting:

i. Use opening questions to introduce yourself and establish the basis for your fact finding exercise;
ii. Outline the key benefits why and how the customer can benefit from your fact finding exercise;
iii. Start with questions where you are more certain the answer will be "yes";
iv. Use funnel questions to narrow down the scope of inquiry and then get the specific information you need so as to arrive at a conclusion;
v. Use probing questions to clarify doubts or misunderstanding. These questions help you to uncover information from people who are hiding information or avoiding telling you something;
vi. Use open-ended questions if you would like to keep the conversation going and dig deeper into the topic;
vii. Use closed questions if you require a yes or no answer;
viii. Use leading questions or reflective questions to lead the customer to give you answers, while they know that you are giving them a choice.

A sample of questions for fact finding:

i. "Good morning, Mr. Chan. I am John and I believe we met last week during the lunch hour at my bank. I hope everything is fine with you. By the way, we are reviewing our VIP customer portfolio in our branch and hope we can provide you with better products and services. In particular, we hope we can help customers to save on paying bank interest and charges. So, we would like to obtain the latest information from you." (Opening question and questions you are pretty sure you will got a yes response to start the whole conversation).

ii. "Our records show that your auto-pay amount has increased quite a lot in recent months. So we are just wondering about the reason and if you were promoted or if you are in a higher paying job. Would you mind telling us more?" (Funnel question to seek clarification why auto-pay increased and open-ended questions to allow the customer to elaborate more).

iii. "We notice that the HK$2 million on deposit was not renewed last week and transferred out. We are just wondering about the reasons and if it was related to the interest rate. How can we help you to improve the yield on your deposit?" (Probing questions to clarify why deposits were not renewed.)

iv. "From our records, I see that your job is a lecturer at a local university. Are you still working there?" (A closed question to obtain yes and no answer from the customer.)

v. "From what you told me just now, it seems to me you are the type of person who prefers certainty in return rather than uncertainty even though uncertainty may mean a higher payoff later on. Is this the right categorization of your savings attitude?" (A reflective question to confirm the investment style of the customer).

vi. "Thank you so much for helping us to update your information profile. We will use the newly updated information to see which products from our Bank can serve you even better. Are you free to meet next week so that we can talk more?" (Closing remarks showing the whole exercise can actually benefit the customer).

Guidelines to Trainer for Step 1

Suggested Duration:

4-hour classroom training (plus 16-hour self-paced learning, such as on-the-job training, self-study and report writing etc.)

Teaching and Learning Methodology

Participants should be taught through a "participant centered orientation" with a dual emphasis centered on lectures; and inquiry-led teaching and learning practice. Trainers may conduct lectures and use examples in the learning materials to illustrate the concepts. Learners should be encouraged to draw on their work experience to apply concepts to real world scenarios.

Learning Topics at-a-glance

- Benefits of understanding customers' genuine financial needs
- Fact finding on customer
- Needs of retail banking customer
- Catering to customer's genuine financial needs based on life stages
- General principles of determining customer's genuine financial needs

Summary of activity

- Lecture
- Experience sharing (by the trainer and with the class)
- In-class activity – group discussion
- Exercise 1 – case study

Methods of Assessment

ILOs will be assessed through a case study. Learners should analyze a case related to understanding and analyzing a customer's genuine financial needs and then provide appropriate responses to the case questions.

Further Reading

Genesys (2008) "*Customer Service Strategies for the Retail Banking Industry*"

The Hong Kong Association of Banks (2015) "*Code of Banking Practice"*, Hong Kong

The Securities & Futures Commission (Mar 2016), *"Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission"*, Hong Kong

The Hong Kong Federation of Insurers (HKFI), "*The Code of Conduct for Insurers*", Hong Kong

The Hong Kong Monetary Authority (HKMA Dec 2013), "*Guidance Paper on Transaction Monitoring, Transaction Screening and Suspicious Transaction Reporting*", Hong Kong

The Hong Kong Monetary Authority （HKMA March 2009） *"Implementation of recommendations in the HKMA's Report on Issues Concerning the Distribution of Structured Products Connected to Lehman Brothers ("the HKMA's Report")"*, Hong Kong

In-class Activity for Step 1: Fact finding

Information to learners:

Form a group of 4-6 persons to discuss and then present to the class based upon the following parameters:

(a) Think of a customer you previously sold him/her retail banking products/services
(b) Identify how you conduct fact finding about the customer
(c) Identify how you determine the genuine financial needs of the customer based upon his/her life stage and other personal information and circumstances you uncovered during the fact finding stage
(d) Identify the products/services you sold to the customer and how his/her genuine financial needs are satisfied by the product/service
(e) Identify the benefits to your bank by selling the products/services to the customer

Instructions for trainer:

In the presentation to trainer, learners must be able to demonstrate the following skill competencies to ensure the Intended Learning Outcomes are achieved.

(a) Learners must identify how they conduct fact finding for the customer such as reviewing information from the account opening forms or the latest transaction records. The skill competency here is the ability to conduct fact finding on customer through various sources.
(b) Learners must be able to determine customer's genuine financial needs through the customer's life stages and material information and personal circumstances uncovered during the fact finding stage. The skill competency here is the ability to apply life stages concept and personal information and circumstances to determine customer's genuine financial needs.
(c) Learners must be able to identify the products/services sold to the customer and how these products/services can fulfill the customer's genuine financial needs. The skill competency here is the ability to match products/services sold with the genuine financial needs of the customer.

(d) Learners must be able to identify how satisfying the customer's genuine financial needs can actually benefit the bank. The skill competency here is the ability to outline how the bank's credibility with the customer can be established and a value-based solution is provided to the customer through the satisfaction of genuine financial needs of the customer.

(e) The assessment rubric for In-class activity is as follows:

1. Distinction: identification and full elaboration of (a), (b) and (c) and additional insightful points
2. Pass: identification and full elaboration of (a), (b) and (c)
3. Marginal Fail: identification and full elaboration of any two out of (a), (b) and (c)
4. Fail: identification and full elaboration of one or less out of (a), (b) and (c)

Exercise 1: Case study

Case Background:

- A middle-aged customer has a regular saving and deposit account. However, since his deposit has exceeded a certain amount and based on the bank's segmentation of customers, he has been classified as an affluent customer.
- Recently, the transactions of this customer have changed from his previous transaction pattern. Part of the deposits have been withdrawn. A new account of a sole-proprietorship nature has been opened. There have been regular cash inflows posted by the customer through these accounts. There have also been regular outward telegraphic transfers overseas.
- The RM phoned the customer and found out the current circumstances of the customer. The customer had quit his high paid job and started a coffee shop in a busy business district. His daughter went overseas to further her education at the beginning of the year.

Question:

- What sort of information should the RM find out about?

Exercise 1: Case study

Suggested Answers:

1. The RM should meet the customer for two purposes:

   (a) Is the latest transaction pattern the basis for a compliance alert such as money laundering?

   The RM should ask for more information from the customer. Why have there been so many cash transactions and outward TTs? The cash deposited can probably be substantiated by the retail nature of the coffee shop. The outward TTs are probably due to the overseas education of his daughter. RM should also, on a risk-based approach, obtain documentary evidence to substantiate the claims by the customer.

   For a compliance alert, the RM should obtain more information from the customer on why there have been many cash transactions and outward TTs lately. The cash deposited is likely to be substantiated by the retail nature of the coffee shop newly opened by the customer. The outward TTs are likely to be substantiated by the overseas education pursued by his daughter. RM should also obtain documentary evidence to substantiate the claims by the customer. Even though it may not be necessary and practicable to obtain documented evidence in all cases, such account monitoring should be done on a risk-based approach. Trainer may refer to the HKMA's "Guidance Paper on Transaction Monitoring, Transaction Screening and Suspicious Transaction Reporting" (Dec 2013) for more details.

   (b) Have the genuine financial needs of the customers changed?

   The customer is probably in the life stage of job changes and business ownership. His <u>financial needs</u> are now different. First, his credit needs may be higher due to his need for more capital to support the coffee shop. His <u>risk management</u> need may be different due to the changing nature of the way he now makes money i.e. from a wage earner to a sole proprietor. For example, he may need fire insurance for his coffee shop. His operational needs may be different. For example, he may need two accounts to separate his own finances from the finances of the coffee shop. His wealth creation need may be different. For example, if his business is successful, he may have more idle cash and may need some vehicles to park his idle cash temporarily.

2. The RM should also see these changes as a cross selling opportunity to offer business banking services. The RM can continue to take care of the retail banking needs. The business banking needs of the customer, now an SME (Small and Medium Enterprises), will be taken care of by commercial banking.

Assessment Rubric

- For this case study, learners are required to spell out the following critical points:
  - (a) seek information about the rationales for the outward TT and inward cash deposit transactions;
  - (b) seek documentary proof from the customer to substantiate the rationales; and
  - (c) inquire about the possibility of changing the financial needs of the customer.
  - (d) The assessment rubric for this case study is as follows:
    1. Distinction: identification and full elaboration of (a), (b) and (c) and additional insightful points
    2. Pass: identification and full elaboration of (a), (b) and (c)
    3. Marginal Fail: identification and full elaboration of any two out of (a), (b) and (c)
    4. Fail: identification and full elaboration of one or less out of (a), (b) and (c)

Step 2: Risk Appetite Analysis – Understand and analyze risk appetite of customers

2.1 Intended Learning Outcomes (ILOs)

On completion of this step, learners should be able to:

- Appreciate the functions played by risk profiling
- Understand risk profiling areas
- Interpret risk profiling results
- Formulate risk profiling strategy

2.2 Risk profiling functions

In order to comply with the relevant regulatory requirements, to protect customer's interests and to practice proper business and ethical conduct in order to exhibit a high level of professionalism, customer risk profiling has become increasingly important. In order to maintain impartiality, it is the usual practice of banks to assign the duty of conducting risk profiling to non-front-line staff. Risk profiling has the following functions:

- **To comply with regulatory requirements:** risk profiling is an integral part of the Know Your Customer (KYC) process and allows banks to recommend products and services to customers according to their risk profiles.
- **To avoid legal claims:** the failure to properly profile a customer's attitude to risks, including their willingness and capacity to take risks, can have negative consequences resulting in legal claims by customers for inappropriate advice and/or punitive action from regulators.
- **To obtain tangible commercial benefits:** banks carefully review the risk profile of their customers to understand their genuine needs, provide more focused services, make appropriate recommendations and reduce the risk of customers being unable to see the value in the advice provided and or willingness to pay for it. Therefore, meeting a customer's needs can lead to lower complaint rates, increased customer loyalty and increased assets under management from customers.
- **To promote long term industry reputation and professionalism**: as mentioned above, the practicing of proper ethical behavior, together with a high level of professionalism is crucial for gaining the customer's trust, which will be conducive to more business in the long run.

2.3 Risk profiling areas

When determining the risk profile of customers, banks need to consider many key areas including:

a) Customer's financial situation: relevant information gathered in Step 1 of Fact finding.

b) **Customer's objectives:** consider the customer's investment objectives (e.g. capital protection, stable income stream or capital growth?) and the intended purpose of the money (e.g. to set aside part of net worth for investments).

c) **Time horizon:** obtain relevant customer information to understand how long the customer wishes to maintain the investment and feel comfortable with the decision. Banks must also be prepared to challenge a customer in situations when the customer's stated time horizon is unrealistic in achieving the customer's stated objective.

d) **Attitude to risk:** finding the true attitude to risk is critical in assessing suitability and making an investment recommendation. Banks need to remember that customers may have different attitudes to risk at different stages of their life and for different pots of money.

e) **Capacity for loss:** banks should assess the level of risk a customer's financial situation can withstand a loss of capital without materially impacting the customer's standard of living. This involves analyzing and understanding the customer's financial situation.

f) **Tolerance for loss:** Banks need to measure and describe the extent to which a customer is willing to risk experiencing a loss when pursuing a more favorable financial outcome. Banks must demonstrate that they have considered the customer's attitude to loss, level of disposable income and the level of volatility the customer is willing to accept in order to maximize his income.

g) **Knowledge:** Customers with more financial and investment knowledge are generally more willing to accept investment risk. They often know that they will need to accept more risks to generate higher returns.

h) **Asset Allocation:** After conducting risk profiling, the recommended investment should match the profile. Banks should demonstrate that the underlying risk asset allocation matches the risk a customer is willing and able to take; and that the bank has considered all aspects of the customer's objectives and financial situation.

2.4 Risk profiling tools

Banks usually find out about a customer's risk profile through profiling tools e.g. questionnaires. These questionnaires usually include the first six key areas mentioned above, i.e. customer objectives, time horizon, etc. Then, an algorithm and calculation will produce a generalized risk category. Based on this category, a suitable product will be recommended.

A risk-profiling questionnaire generally includes the following aspects:

- **Personal particulars** e.g. date of birth, educational background, employment status and language ability. The objective is to determine the life stage the customer is in, their earning ability, their ability to understand complex financial products and also which language will be more suitable for communication.
- **Investment objectives** e.g. to beat inflation, to generate steady income, for children's education or for retirement. The objective is to present investment products that suit the customer's genuine need.
- **Investment horizon** can range from less than one year to over ten years. The objective is to understand the customer's intended investment tenor so as to suit the customer's age and genuine financial need. Short-term fluctuations in the values of investments will be less of a concern for investors with longer-term horizons.

- **Risk tolerance level** e.g. taking high, average or low risks in order to realize a high, average or low rate of return. Follow-up questions may include hypothetical investment portfolios with different risk levels and returns. These help to further confirm the customer's risk tolerance level. The objective is to advise the customer that the level of return is generally commensurate with the level of risks. In addition, a higher risk may be needed to earn a higher return. Therefore, the customer needs to be alerted about the trade-off between risk and return.
- **Investment experience and knowledge -** the objective is to ensure that the customer understands the intricacies and risks of the investment products they purchase. So customers will be asked about their past investment experiences in different types of investment products (e.g. Certificate of deposits, fixed income products, currencies, structured products, leveraged products, equities and commodities etc.) including high risk products such as derivatives. In assessing whether a customer has knowledge of derivatives, AIs should make appropriate enquiries of or gather relevant information about the customer during the KYC process and make their own assessment instead of relying merely on the customer's declaration. Investment knowledge and work experience related to different investment products will also be probed to further confirm the customer's investment knowledge and experience.
- **Income and net worth** e.g. monthly income, assets held. These include physical assets, financial assets and the liabilities of the customer. The objective is to ensure that the customer can withstand the negative impact the investment product may cause if there is an adverse movement in the price of the investment.
- **Asset concentration –** the percentage of customer's total net worth (excluding real estate properties) to be invested in the relevant transaction.
- **Vulnerability -** Some banks may designate certain type of customers as highly vulnerable customers such as those with a very low level of education and a small net worth – even though they might be interested in buying investment products. Additional precautionary measures (e.g. advise the customers to avoid hasty decisions, invite their relatives or friends to attend, and/or assign more than one staff to conduct the suitability assessment interview and product presentation) should be implemented to safeguard the interests of these customers.

2.5 Risk profiling results

Based on the overall scores from the questionnaires, a risk profile of a customer can be determined and categorized. Although different banks may have different categorizations, customers are generally classified into different types of investors i.e. secure, low, low to medium, medium, medium to high and high-risk investors. Each risk category can carry a numeric range to categorize the customer and this is based on the customer's scores from the questionnaires. Based on the category, banks can understand the risk profile of customers in two aspects:

- their risk appetite
- the type of suitable products

As an example, a hypothetical list of categories has been listed below:

Risk appetite	Type of suitable products
Secure type:	A customer generally does not want to take any investment risk, since he can not accept an investment loss.
Low risk type:	A customer is generally comfortable with achieving a minimal level of return potential on an investment coupled with minimal risk.
Low to medium risk type:	A customer is generally comfortable with achieving a low level of return potential on an investment coupled with a low level of risk.
Medium risk type:	A customer is generally comfortable with achieving a moderate level of return potential on an investment coupled with a moderate level of risk.
Medium to high risk type:	A customer is generally comfortable with achieving a high level of return potential on an investment coupled with a high level of risk.
High risk type:	A customer is generally comfortable maximizing a return potential on an investment coupled with a very high level of risk (e.g. can tolerate a potential of very high capital loss).

2.6 Risk profiling strategy

Although the questionnaires outline the common types of customers with the relevant risk profiles scores, banks must not treat risk profiling as simply a form filling exercise. Effective risk profiling depends on the following beliefs:

Enhancing the KYC process:	Every customer is different and their scores are built up from different combinations of responses to the questions in the risk profiling questionnaires. The result should support and enhance, and not replace, the KYC process. Banks should use the risk profiling questionnaires to discuss risks with customers. Banks should not mechanically take the scores at face value – banks should discuss and ask questions.
Explaining risk tolerance:	The risk profiling skill of bank staff is important. Staff must explain the risk represented by each category and describe the common characteristics of the people in the different risk tolerance categories. These explanations are important. The customer and the bank must have the same interpretations of the level of risk of each category. Staff should not give undue influence or mislead customers to provide certain answers to risk profile questions. Also, it is the bank's duty to educate the customer to understand the connection between returns. This will build more realistic expectations on the returns of different risks and investments.
Separating risk profiling from sales:	The assessment of a customer's risk profile should be separated from the sales process and be carried out by non-sales staff. In addition, the customer needs to receive a copy of the risk profile and asked to confirm his agreement that the risk profile is accurate.
Scrutinizing	Incorrect analysis or interpretation of the customer's responses can occur if

questionnaires:	there is inappropriate weighting, technical jargons, emotive statements or two questions combined in one. Therefore, banks should scrutinize thoroughly the construct of questionnaires to ensure their validity. To achieve the best customer outcome, banks need to ensure the proper construct of questionnaires and the correct use of scoring. Banks also need an in-depth knowledge and understanding of the customer - both now and in the future.
Understanding limitations and individual circumstances:	Banks should understand the limitations of risk profiling questionnaires. Since questionnaires use standard questions, they might not take individual circumstances into account. However, these could be critical to risk assessment. Ultimately, banks should not totally rely on risk profiling scores.
Documenting the process:	Banks must be able to demonstrate they have assessed and clearly documented the customer's risk profile and rationale for their recommendation - this includes using recordings. If banks have this information, it can more easily show three main points: that the advice given was suitable, the choice was made of the customer's own accord and the customer understood that his actions will not be swayed by the bank. Proper documentation and other available records such as account opening forms, bank mandates, taped conversations with customers can prove that customers need to be responsible for the decisions they made and the consequences of such decisions.
Reviewing and updating risk profiles:	Banks should put in place clear policy and procedures for setting the frequency of conducting a review of customer risk profiles. The frequency of reviews should be reasonable and can be set according to the individual customers' circumstances. Banks should also consider the predominant market practice and regulatory requirements or expectations. In addition, customers should be reminded to advise the bank of any material change in their circumstances. These changes might make it necessary to update the customer's risk profile.

Guidelines to Trainer for Step 2

Suggested Duration:

4-hour classroom training (plus 16-hour self-paced learning, such as on-the-job training, self-study and report writing etc.)

Teaching and Learning Methodology

Learners should be taught through a “participant centered orientation” with a dual emphasis centered on lecture, inquiry-led teaching and learning practice. Trainers should conduct lectures and use examples in the training materials to illustrate the concepts. Learners should be encouraged to draw on their work experience to apply concepts to real-life scenarios. Since risk appetite analysis may vary among banks, trainers should always refer to policies, strategies and guidelines on risk appetite analysis of individual banks and should not make across the board generalization on this topic.

Methods of Assessment

ILOs will be assessed through a case study. Learners should analyze a case related to risk profiling and provide appropriate responses to the case questions.

Learning Topics at-a-glance

- Risk profiling functions
- Risk profiling areas
- Risk profiling tools
- Risk profiling results
- Risk profiling strategy

Summary of activity

- Lecture
- Experience sharing (by the trainer and with the class)
- In-class activity – role play
- Exercise 2 – case study

Further Reading

Christopher Price (2008) “*Customer Risk Assessment*” [online] Available at: < http://www.metavante.com>

Ernst and Young (2014) "*Risk Profiling consumer protection agenda: investment suitability*", London

Vanguard Asset Management (2012) "*Investment risk and financial advice*" [online] Available at: <http://www.vanguard.co.uk>

HKMA circular (8 April 2016), *"Feedback from recent reviews of the selling of investment products"*, Hong Kong

SFC (Dec 2015), *"Consultation Conclusions on the Client Agreement Requirements"*, Hong Kong

SFC, *"Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission"*, Hong Kong

HKMA circular (7 May 2007) *"Questions and Answers on Suitability Obligations Published by the Securities and Futures Commission (SFC)",* Hong Kong

In-class Activity for Step 2: Risk Appetite Analysis

Information to learners:

Form a group of 3 persons. Each member in the triad will take turns to be the Customer, the RM and the Observer. The case details are below:

- You just received the result of a customer's risk profile indicating that he is a low risk type and rated as the second lowest risk appetite on a six level rating scale.
- Customer particulars:
  - Mr. Adrian Wong, aged 36
  - Married with no children
  - No mortgage or any other loans at our bank
  - Claimed to be an IT professional
  - Banking relationship over 10 years
- Details of the risk profile are as follows:
  - Investment objective: to generate steady income with principal protection as the key
  - Investment horizon: long term with gradual accumulation of nest egg
  - Risk tolerance level: low
  - Investment experience and knowledge: one year in trading HK stocks
  - Income and net worth: $25,000 per month and $300,000 in savings account
- You recalled that you had a meeting with him in which he asked you about high yield bonds in emerging market and was interested to seek quick return from this high yield bond.
- You are having the meeting with him now. What advice you will give to this customer based upon his risk profile?

In the role play, Observers should observe and report whether the RM demonstrated the required skills.

Instructions to Trainer

You may ask a couple of teams to present in front of the class. Learners must be able to demonstrate the following skill competencies to ensure the Intended Learning Outcomes are achieved.

(a) Learners must be able to extract information from the risk profile of the customer particularly regarding objective, time horizon, risk tolerance level, investment experience and knowledge, income and net worth. The skill competency here is to use key information in the risk profile to determine the vulnerability of the customer. In this case, the vulnerability of the customer seems high.

(b) Learners must be able to interpret risk profiling results to determine the risk appetite of the customer and suitable products for the customer. A high yield bond in emerging markets may not be suitable to the risk profile of the customer. Conservative investment products with principal protection features may be more appropriate to the customer's profile. The skill competency here is the ability to interpret properly the results from risk profile and recommend products that are commensurate with the risk profile of the customer

(c) The assessment rubric for this In-class activity is as follows:
   1. Distinction: identification and full elaboration of (a) and (b) and additional insightful points
   2. Pass: identification and full elaboration of (a) and (b)
   3. Marginal Fail: identification and full elaboration of one out of (a) and (b)
   4. Fail: identification and full elaboration of none out of (a) and (b)

Exercise 2: Case study

Case Background:

- Madam Chan, aged 59, was a customer of a local bank. Through the risk profiling protocol of the bank, Chan was identified as "Medium to High Risk Type".
- Chan was an experienced and sophisticated businesswoman trading in petroleum and petrochemical products who understood the nature and risks involved in the investment transactions. Chan declared that her net worth was about HK$80 million (HK$60 million cash and HK$20 million in mortgage free properties).
- She signed account opening forms and various documents including declarations pertaining to investment - the contents of which were explained to her by the bank sales staff. It should be noted that in one of documents, there was a clause stipulating "an express agreement and declaration … that in entering into any transaction, Chan's decision would be based on her own judgment independently of any recommendation by the bank and it had been accepted that the bank should bear no liability for any advice or news expressed". Chan signed all the documents.
- In 2007, Chan entered into contracts with the bank to purchase equity structured investment products, which had a market value of about US$10 million (HK$78 million). The Bank explained clearly the margin requirements, policies and contents of the products to Chan. Chan appeared to have understood the explanations and raised no queries. Chan pledged her assets to obtain banking facilities from the Bank and used the facilities to purchase the investment products.
- All through this time, the Bank's internal rules and procedures were fully complied with.
- The equity structured investment products initially increased in price resulting in profits for Chan. The Bank's staff suggested to Chan that she could dispose of the investment products to lock in profit and improve her cash flow. Chan refused as she aimed for higher profit due to her confidence in the movement of the underlying equities. There were audio recordings of all conversations between Chan and the bank staff.
- Later on, the equity structured investment products imploded and Chan filed a lawsuit against the bank claiming that it had induced her to buy the investment products and the performance of the investment products was false and untrue. In other words, Chan claimed mis-selling of investment products by the bank.
- The litigation went to Court and the verdict was in favor of the bank and awarded it over HK$92 million including contractual interest.

Question:

- What did the bank do right in this case?
- How can the bank do even better in the future? (Bonus question)

Exercise 2: Suggested Answers:

The bank did right …

- The terms and conditions contained in various documents were verbally explained to Chan. It is imperative to keep and maintain the relevant documentations so that they can be used for verification purpose if needed.
- The risk profile indicated that Chan belonged to "Medium and High Risk Type" and the investment products sought by Chan were high-risk investment products, which were in line with the risk profile and the investment experiences of the customer.
- The bank maintained both written and taped telephone conversations between the bank staff and Chan and the recordings were evidence showing that:
  a) Before Chan placed orders, she seemed to understand the features and risks of the products and raised no queries.
  b) When the prices of the investment products increased, Chan turned down the recommendations made by the bank's staff and exhibited over-confidence in the prospect of the investment products. This reflected that she made an independent judgment regarding her investment decisions and appreciated the significant risks in the investment activities in which she engaged.

How can the bank do better in the future? (Bonus)

According to the SFC's Consultation Conclusions on the Client Agreement Requirements (Dec 2015), SFC will amend paragraph 6 of the existing code as follows:

"If we [the intermediary] solicit the sale of or recommend any financial product to you [the client], the financial product must be reasonably suitable for you having regard to your financial situation, investment experience and investment objectives. No other provision of this agreement or any other document we may ask you to sign and no statement we may ask you to make derogates from this clause."

In other words, a client's suitability is the most important determinant in an investment decision, regardless of whatever written or non-written consent from that customer.

In this case, Madam Chan invested almost all her cash in one single investment. She may suffer from excessive concentration risk that the RM should have warned her in advance. If an intended investment will result in a mismatch between the customer's circumstances and the concentration level, AIs should alert the customer of this and ask the customer to reconsider whether in these circumstances he/she wishes to continue to invest the original amount. The Bank should justify that the transaction is suitable for the customer in all the circumstances before proceeding to effect the transaction. Proper documentation in this regard should be maintained.

Assessment Rubric

- For this case study, learners need to identify the areas done correctly by the Bank:

(a) The Bank's staff did verbally explain to the customer about the terms and conditions in these documents. The explanations together with the responses from the customer were in a recorded format and retrievable for future verification purpose;
(b) The Bank matched the risk profile of the investment product with that of the customer;
(c) The Bank fully complied with its internal rules and regulations.
(d) The Bank can do even better in the future by the products/services are suitable for the customer in all circumstances
(e) The assessment rubric for this case study is as follows:
    1. Distinction: identification and full elaboration of (a), (b), (c) and (d) and additional insightful points
    2. Pass: identification and full elaboration of (a), (b), (d) and (d)
    3. Marginal Fail: identification and full elaboration of three out of (a), (b), (c) and (d)
    4. Fail: identification and full elaboration of two or less out of (a), (b), (d) and (d)

Step 3: Product-need Matching – Identify suitable products and services based on customer's genuine financial needs and risk appetite

3.1 Intended Learning Outcomes (ILOs)

On completion of this step, learners should be able to:

- Appreciate the benefits of matching products with a customers' needs
- Identify and match products with a customers' needs based on segmentation, risk profiles and the bank's requirements
- Appreciate the benefits and downsides of cross selling
- Identify cross selling opportunities
- Meet bank's requirement on cross selling
- Increase effectiveness on cross selling

3.2 Leveraging the bank's resources to cater to customer's genuine needs

Banks are often constrained by limited resources and product availability. Therefore, banks need to assess what resources they have and the products available through an internal assessment. Banks then need to leverage those resources and products that can cater to customers' genuine financial needs. Generally speaking, resources can be divided into **People, Process, Infrastructure** and **Products**, each of which will be elaborated on below.

People:

- There are many bank products and they can get very complex. Therefore, bank staff, and RMs especially, need to know each product extremely well. Staff need to understand all the complexities of the products, rules and regulations; and compliance issues. Bank staff need to be trained in how products can benefit customers. These products need to be discussed, experiences and best practices shared. Banks need to introduce internal and external certification requirements that meet or even exceed regulatory licensing requirements. Apart from technical knowledge, it is also important to provide regular coaching to help staff to understand a customer's needs, wants and goals.
- Further, by training staff to focus on the genuine needs of customers, staff can avoid the problem of introducing products and services with which they are familiar with or are encouraged to sell. Staff might just focus on selling what they are familiar with and might ignore the customer's needs. However, by focusing on a customer's needs, staff will orient themselves towards selling an overall solution to address needs rather than selling separate products.

Process:

- As regulated entities, banks put in place internal control systems, rules and regulations to ensure full regulatory compliance. Consistent with fulfilling internal and external control requirements, internal work process should be streamlined for speed and efficiency so that customers' needs can be met promptly. For example, if full information and all documentation have been received, banks can provide a service pledge to approve a personal loan say within three days. If a suitable product is launched to satisfy a customers' particular need, a defined set of processes and procedures for opening, originating, servicing, transacting and maintaining the product should also be put in place.

Infrastructure:

Physical Infrastructure:

- Customers are busy and so banks need to provide convenient accessibility, flexibility and instant services. Therefore, banks with a wide network coverage such as having many branches can have many touch points to provide the immediate accessibility needed by customers.
- A well-designed branch layout can guide customers to the right service and person. Although queuing is common, the layout can also be set up to alert customers to the waiting time required at a certain point in the queue.

Non-physical infrastructure:

- Apart from physical infrastructure, banks which do not possess a large network of branches can also cater to customers' needs through non-physical infrastructure such as telephone and on-line services. For example, to meet customers' accessibility needs, banks can extend the hours of a fully-manned hotline service with a promise to pick up calls say within 20 seconds. The design of a bank's website can also be user-friendly so that customers can see where to click for a certain service. For example, customers can buy travel insurance and receive coverage right away.
- Other infrastructure include Customer Relationship Management (CRM), referral tracking, profitability analytics, easy-to-use referral and sales-call tracking systems; complete activity management, scalable and flexible agency management systems and other information systems. In short, any physical infrastructure or virtual infrastructure that can enable banks to fulfill customers' needs should be explored and refined to serve the purpose.

Products:

- Banks have many products and services that can cater to customers' genuine financial needs. These are based on the operation, credit, risk management and saving; and wealth creation needs. Using the core information obtained from the fact finding stage and according to the risk profile of the customer, banks can align a customer's requirements with the most appropriate products and services. Therefore, banks can offer highly customized and niche products. For example, a bank can offer different types of credit cards ranging from basic, low annual fee cards to black cards with high fees and a high credit limit.
- To cater to the genuine financial needs of customers, banks need to explain how the products can benefit the customers. In other words, how value can be created from those products. Therefore, banks need to explain the following to customers:

  a) List of product features and associated benefits
  b) Methods of comparing similar products and services, both internally and from external competitors

c) A defined set of process and procedures for opening, originating, servicing, transacting and maintaining the products
d) Pricing guidelines, product policy guidelines and exception guidelines

- Customer requests for information that cannot be immediately addressed should be routed and escalated to the appropriate unit within the bank, and a response time advised to the customer.
- Nowadays, banks are not only selling their own proprietary products, but also third party products especially in insurance and mutual funds. Banks must appreciate their position when selling third party products:

a) Selling third party products does not reduce the legal obligations or responsibility imposed on the bank. The banks should not think that merely acting as a distribution arm will somehow protect them from litigation if something goes wrong later. The same level of due diligence is required in terms of suitability obligation and KYC requirements.
b) The RM selling a third party product must thoroughly understand the products they recommend to customers. RMs should rely, among other things, on prospectuses, offering circulars or marketing materials as necessarily being self-sufficient or self-explanatory.
c) Similar to their own proprietary products, Banks must leverage their own resources i.e. people, process and infrastructure to ensure customers' needs are fulfilled by third party products.

3.3 Benefits of cross selling

Cross selling means selling new products or services to an existing customer. For example, it can be selling an existing credit card customer with a mortgage loan. Cross selling can take two forms:

- **A bundled offer:** where each of the products/services offered is available separately and where the customers retain the choice to purchase each component of the package
- **A tied or conditional offering:** where at least one of the products/services offered in the package is not available separately to the customer

Although what qualifies as cross selling may differ among banks, the cross selling ratio defined by the number of products and services sold divided by the number of customers is generally used by banks to define and measure cross-selling. The benefits of cross selling are as follows:

- The more relationship a bank has with a customer, the better the wallet share of the customer by the bank
- More spending on the products of a bank by a customer leads to better top and bottom line performance
- Cross selling reduces customer acquisition costs, servicing, marketing and communication costs and could substantially increase the spread for banks.
- The greater the number of products held by a customer, the higher the probability of retention, that is, the more loyal the customer will be.

- The more relationship a bank has with a customer, the better the bank gets to know the customer. Therefore, the bank can improve the assessment of the credit quality and risk profile of the customer.

3.4 Identification of cross selling opportunities

Banks can identify cross-selling opportunities that can cater to customers' genuine needs in the following ways:

- **Start with customer segmentation**
- **Calculate product penetration**
- **Make internal referrals**
- **Make teams from different areas**
- **Develop expertise and capabilities**
- **Use multiple points of contact and channels for cross selling**

- **Start with customer segmentation:** to understand the types of customers, customers can be grouped according to certain criteria such as buying habit or net worth level. Usually, customers in the same group tend to use the same types of products. For example, one bank identified a segment called affluent customers with assets of one million Hong Kong dollars placed at the bank. Generally, these customers are well-educated executives, managers or retirees who go on-line to handle financial matters such as trading stocks and transferring funds. They enjoy a good life, hobbies and interests. They also tend to have multiple insurance products.

- **Calculate product penetration:** before finding out how many new insurance products can be sold to these customers, a bank may need to calculate the product penetration level measured by the number of affluent customers with insurance products/number of affluent customers at the bank. After the bank has calculated the penetration percentage, the bank will know the level of penetration. They can then single out a list of affluent customers with a low level of penetration. These will be the customers who are most likely to buy insurance products from the bank.

- **Make internal referrals:** internal referrals involve different staff of your bank being able to identify opportunities for sales leads and then systematically passing them on to other departments that are better positioned to pursue, advance, or close a sale. Referrals are particularly useful when the aim is to cross sell two distinct products to the same customer, but when specific expertise or special handling is needed. For example, one staff member might handle the renewal of a fixed deposit for a customer. The customer might express dissatisfaction over the meagre return offered by deposits and might be actively looking for investments offering higher rates of return and willing to accept a higher level of risks.

  Suitable substitutes could be mutual funds and fixed income products. Unfortunately, this product knowledge may be outside the expertise of the staff member handling transactions for fixed deposits. However, if this staff member can refer the customer to the appropriate department, this can generate cross-selling opportunities. So the staff member handling the transaction for the fixed deposit would be in a better position to appreciate the needs of the customer.

- **Make teams from different areas:** teaming people from different areas or expertise of the sales force to sell to each other's customers can be an effective way to exploit cross-selling opportunities. For example, a bank's insurance unit can organize interlocking teams in which a life RM works with a non-life RM. The objective is to avoid the problem where the RM will only be able to introduce products and services with which they are familiar - potentially ignoring the customer's real needs. An RM from another background may be able to detect other needs the original RM failed to detect.

- **Develop expertise and capabilities:** banks should require an RM to develop expertise in selling products that were previously outside their domain or expertise. This places the emphasis firmly on matching the capabilities of the sales force with the genuine financial needs of the customer. When an RM acquires the necessary expertise, he will not only possess the necessary knowledge to detect other needs from the customers but also be more confident to sell the products.

- **Use multiple points of contact and channels for cross selling:** use all opportunities for getting the cross-selling message in front of the customer. Sometimes, customers may not be aware of other products or services provided by their bank. In addition, to save costs, customers tend to consolidate their banking among a few banks. This provides opportunities for banks to cross sell their products to their existing customers.

3.5 Downsides of cross selling

Cross selling can provide mutual benefits to banks and customers. However, banks should also consider the potential detriments to the customer.

- **Extra cost for customer:** Cross selling might mean that customers pay more than necessary for another comparable product. This might be particularly the case for the additional products that are cross sold. Since the customer might have only researched the original product, they might be less knowledgeable about the product they are cross sold by the bank. .

- **Purchase of unwanted or unsuitable products:** Certain cross selling practices may lead to situations where customers purchase products or services they do not need or cannot benefit from.

- **Long-term contractual relationships:** cross selling might lead to long-term contractual relationships. The customer might then need to resolve the potentially unfavorable consequences of accepting a cross sale later on. Alternatively, the customer might find that they are unable to seize a market opportunity.

- **Barriers to mobility for customers:** Cross selling might lead to contractual barriers and then limit the mobility of customers. For example, accepting a product cross sold may limit the ability of a customer to terminate the agreement to get a more competitive offer from a competitor. Such barriers can be incompatible with both fair competition and with consumer rights.

3.6 Bank requirements on cross selling

To avoid these problems in cross selling, guidelines and a code of conduct are provided to banks when they engage in cross selling activities. The guidelines cover:

- **Compliance with applicable regulatory requirements**
- **Full disclosure of key price and cost information**
- **Full disclosure on non-price features and risks, where relevant**
- **Prominent display and communicator of "optionality of purchase"**
- **Assessment of demands and needs of suitability or appropriateness, including eligibility**
- **Adequate training for relevant staff**
- **Post-sale cancellation rights**

- **Compliance with applicable regulatory requirements**: only staff registered under the HKMA can conduct regulated activities. There should also be physical, staff and data segregation between general banking and investment activities (please refer to the HKMA's guideline dated 25 March 2009 mentioned above for details). Staff engaged in cross-selling should be cautious that in the process of distribution of promotional materials to the customers (other than existing customers), they or their agents do not enter into any interactive dialogue with the recipient on the contents of the materials unless the recipient has first asked for more information in relation to the materials. Reference can also be made to SFC's Q&A on Unsolicited Calls Exclusion Rules and section 174 of the SFO.

- **Full disclosure of key price and cost information:** customers are provided with the price of both the package and its component products. If there is no segregation of prices for different components because the package is sold as a whole, this information should be explained to the customers clearly. The relevant costs associated with the purchase of its package or its component products such as administration fees, transactions cost, exit or pre-payment penalty charges should also be disclosed and explained to the customers. Further price and cost information should be presented to customers in a way which is not misleading or which distorts or obscures the real cost to the customers or prevent meaningful comparison with alternative products. The objective is to allow customers to make an informed decision in the cross selling process.

- **Full disclosure on non-price features and risks, where relevant:** customers are provided with all relevant information relating to the non-price features and risks – where applicable – of each of the component products and the package, including in particular the information on how the risks are modified as a result of purchasing the bundled package rather than each of the components separately. Further information on the non-price features and risks of the package is presented to the customers in a way which is not misleading or which distorts the impacts of these factors to the customers.

- **Prominent display and communicator of "optionality of purchase":** Customers are properly informed whether it is possible to purchase the component products separately i.e. whether customers have a choice as to which products to buy or one of the component products has to be purchased in order for the customer to be eligible to buy one of the others.

- **Assessment of demands and needs of suitability or appropriateness, including eligibility:** The overall package and the component products constituting that package are distributed in accordance with any appropriate requirements to meet the genuine needs of the customers or to assess suitability or appropriateness.

- **Adequate training for relevant staff:** adequate training is provided to staff in charge of distributing each of the products sold as part of a package. Training should ensure staff are familiar with the risks, where relevant, of the component products and the bundled package and be able to communicate these to customers in plain and non-technical language.

- **Post-sale cancellation rights**: cooling-off periods or post sale cancellation rights apply to one or more components of the cross selling package and should continue to apply to those components within the package. If customers are not allowed to cancel a component within a package or can only cancel at a substantial penalty, these restrictions should also be advised to the customers. For instance, OCI recommended the cooling-off period for long term insurance policies is 21 days after the issuance of a notice informing the policyholder of the availability of the policy. The policyholder has the right to cancel the policy and obtain a full refund of the insurance premium (less a market value adjustment where applicable) if he changes his mind within that cooling-off period. Likewise, HKMA also introduced the Pre-Investment Cooling-off period (PICOP) in 2010 that customers which fall into certain criteria (i.e., elderly customers of 65 or above, first-time buyers and customer's asset concentration is 20% or more) for investment of unlisted structured products, should be allowed at least 2 calendar days to consider the appropriateness of the investment. For details, please refer to the relevant Office of the Commissioner of Insurance (OCI) website and HKMA circular Implementation of Pre-Investment Cooling Off Period for Retail Customers (20 May 2010).

3.7 Increased effectiveness of cross selling

Cross selling has become an increasingly important revenue source for banks. The following outlines the areas banks need to focus on to increase the effectiveness of cross-selling.

- The business unit which conducts the cross-selling i.e. cross sells a product from a different business unit should not treat cross selling as someone else's business. The requirements to thoroughly understand the products recommended to customers and matching the products with the risk profile and genuine financial needs of the customers remain in force.

- The guidelines and code of conduct required by the regulatory authority and the bank's guidelines on cross selling need to be followed.

- During cross selling, if the customer's information needs to be passed to another business unit within the bank, written consent from the customer in this respect should be obtained and Chinese Wall regulation within the bank should also be followed.

- Training must be provided to RMs especially to those who are selling products that are outside their original expertise. Training can provide RMs with the necessary knowledge of the products they recommend to customers. This product due-diligence will put RMs in a better position to appreciate the genuine needs of the customers.

3.8 Product-need matching to comply with bank requirements

Banking services and products should be designed to meet the needs of customers. Banks should assess the financial capabilities and needs of customers before offering them a service, advice or product. Procedure-wise, banks should:

a) Understand the products they recommend to customers. Banks should not recommend products, especially investment products, which they do not understand.

b) Provide reasonably suitable recommendations by matching the risk return profile of each product with personal circumstances of each customer. In other words, the RM should use their professional judgment to assess diligently whether the characteristics and risk exposures of each recommended product is actually suitable and in the best interest of the customer. This will include items such as transaction costs and foreign exchange risk.

c) To meet the KYC requirement, banks should ask for information from their customers about their financial situation, investment experience, investment objectives, investment horizon, risk tolerance, capacity to make regular contributions and meet extra collateral requirements, where appropriate. Part of this KYC is an integral part of risk profiling.

d) If a customer does not fully disclose his personal circumstances such as financial situation, banks might not be able to assess the customer’s attitude to risks, his expectations and so on. As a minimum and due to the lack of information, banks should explain the limitations of the advice to the customer. Furthermore, banks should explain to the customer the assumptions made in relation to the advice given.

e) It is not adequate to merely hand over product brochures or prospectuses to customers and ask them to read. The RM should help the customer make informed decisions by giving them proper explanations of why recommended products are suitable for them. The RM should also present balanced views including the house view, especially when the house view is different from the view of the customer. The RM should also draw the customer’s attention to the disadvantages and downside risks as well. The RM should use simple and plain language, not technical jargon. The explanations must also be fair and not misleading.

f) Customers should be given time to digest, consider and evaluate the information and recommendations made by the RM and given sufficient opportunity to raise queries. The RM should never use high-pressure or unfair techniques to force or entice customers to make hasty decisions.

g) Banks should establish and define their relationship with customers through a client agreement or similar agreement before providing services to the customer. The client agreement should define the rights, obligations and responsibilities of each party and properly reflect the nature and scope of the services to be provided.

h) Each customer's information should be fully documented and where appropriate, updated on a continuous basis. Furthermore, banks should document verification work and enquiries which they have made about the products, the criteria for selecting the products and in what aspects they are considered suitable for different risk categories of customers; and the approvals they obtained from senior management for promoting the products.

i) RMs must not take commission rebates or related benefits as the primary basis for recommending particular products to their customers.

j) RMs should take extra care in advising elderly or unsophisticated customers or those who may not be able to make independent decisions on complex financial products and rely on advice from the RM. This extra care is even more important for those financial products with a long maturity period and will attract hefty penalty charges upon early redemption or withdrawals.

k) There are situations where an RM may be uncertain which products can cater to the customer's genuine needs or the right kind of products are unavailable within the bank. Therefore, the RM should refer and discuss with their supervisors to select appropriate products or customize the product structure to fit the customer's genuine needs after approval by their supervisors.

l) The senior management of banks should maintain a good corporate governance structure, with clear lines of responsibility and authority, by which a bank's activities are properly directed, managed and controlled in order to serve the best interest of customers.

3.9 Product-need matching based on segmentation

Apart from regulatory requirements, marketing tools such as customer segmentation is one of the other ways a bank can tailor their resources and product portfolio to fulfill a customer's genuine needs. There are many ways to segment customers and one common approach is to use the needs of the customers together with the means they possess to perform a segmentation analysis:

- **General customers:** have limited means and might only have regular accounts or meager deposits with banks. They might require ordinary banking products to fulfill their basic operation, saving, credit and risk management needs. However, even with such general banking needs, banks can tailor products and services to cater to their needs. For example, the majority of these customers are salaried workers. Due to their busy work life, they may need transactional convenience and simple financial management. Therefore, banks can introduce on-line banking services to let customers make banking transactions at any time of day.

- **Affluent customers:** are high net worth individuals who might not have the available assets to become private bank customers. However, they might need more sophisticated products to meet their operation, saving and wealth creation, credit and risk management needs. As they have more financial resources at their disposal, banks can introduce trust services, international banking, institutional funds, global equities and fixed income products. Therefore, banks can provide a one-stop platform offering both the usual retail products and more sophisticated products. Banks can also offer a variety of wholesale-like investment products such as fixed income to affluent customers. When the low interest rate environment prevails, fixed income related investment products are prevalent and gives rise to some particular selling and compliance issues that need to be aware of, especially for high yield bonds or that with complex or special features. Therefore, the HKMA has issued several guidelines that banks need to pay attention to:-

- Selling of fixed income investment products dated 19 November 2012
- Product risk ratings of high-yield bonds and related products 9 August 2013
- Circular Issued by the Securities and Futures Commission ("SFC") on Selling of Complex Bonds and High-Yield Bonds dated 25 March 2014

- Banks can even embed their own proprietary market information infrastructure into their on-line systems to extend information, previously only available to institutional customers, to these customers at any time they wish.

- Within the general and affluent customer categories, banks should also take into account the special needs of each sub-category of customer. For example, for generation Y people born in the 1980's and 1990's, technologically advanced transaction platforms can cater to their tech savvy habits. For mobile or frequent travelling customers, banks can offer offshore banking services or an international banking platform so that they can contact the banks at anytime and from anywhere by phone or email. Dedicated departments can be set up to meet the needs of customers travelling frequently to take care of their banking issues conveniently in their most frequently visited countries overseas.

3.10 Product-need matching based on risk profiles

Products meeting the financial needs of a customer should also meet their risk profile. To show how financial products can be matched with risk profiles, a hypothetical risk profile categorization of a customer with the proper matching financial products is listed below.

Secure type:

- These customers generally do not want to take any investment risk, since they can accept no investment loss.
- Financial products with an investment element are not suitable for this type of customer. The most suitable products are likely to produce returns that are based on prevailing interest rates, which may or may not keep pace with inflation.

Low risk type:

- These customers are generally comfortable with achieving a minimal level of return potential on an investment with only minimal risk.
- Capital values of products that are potentially suitable for this type of customer can fluctuate and may fall below the original investment. In normal market conditions, fluctuation is expected to be minimal, but this is not a guarantee, and the customer is comfortable with this level of fluctuation.

Low to medium risk type:

- These customers are generally comfortable with achieving a low level of return potential on an investment with a low level of risk.

- Capital values of products that are potentially suitable for this type of customer can fluctuate and might fall below the original investment. In normal market conditions, fluctuation is expected to be low. However, this is not a guarantee and the customer is comfortable with this level of fluctuation.

Medium risk type:

- These customers are generally comfortable with achieving a moderate level of return potential on an investment with a moderate level of risk.
- Capital values of products that are potentially suitable for this type of customer can fluctuate and may fall below the original investment. Fluctuation is expected to be higher than products that are suitable for investors in lower risk tolerance categories, but not as much as for higher risk tolerance categories.

Medium to high-risk type:

- These customers are generally comfortable with achieving a high level of return potential on an investment coupled with a high level of risk.
- Capital values can fluctuate significantly and may fall quite substantially below the original investment. The customer understands the risk/reward equation, and is comfortable with this level of fluctuation.

High-risk type:

- A customer is generally comfortable with maximizing a return potential on an investment coupled a very high level of risk (e.g. can tolerate a potential of very high capital loss).
- Capital values can fluctuate widely and may fall substantially below the original investment. The customer understands the risk/reward equation, and is comfortable with this level of fluctuation.

3.11 Benefits of product-need matching

Being able to successfully match a customer's genuine financial needs with bank products and services will allow banks to deliver significant value to customers. This will provide a tangible return on investment for the bank. Both banks and customers will benefit in the following ways:

Customer benefits

- **Personalization**: the interactions between banks and customers are conducted with full knowledge of the customer's banking history and customer profile. The bank will understand each new interaction in context and this will allow the customer's specific circumstances and unique needs to be considered.
- **Knowledge**: due to having core information through the fact-finding process, banks are able to deliver significant knowledge about the bank's products and services to the customers. Banks can also show how the products can benefit and create value for customers.
- **Fulfilled commitment**: leveraging on their resources, banks will have people, process, infrastructure and products put in place to ensure the commitments made to customers are followed.

Bank benefits

- **Loyalty**: with the enhanced personalized services to cater to the unique needs of customers, greater loyalty will result with a possible increase in revenue and products per customer. Customers might perceive that the bank is taking the time to understand their individual and unique needs; and so appreciate their relationship with the bank.
- **Regulatory compliance**: the banking regulator requires banks to provide products and services to meet the genuine needs of its customers. Therefore, banks need to access and leverage their internal resources to provide products and services, which cater to the customer's genuine financial needs. As a result, the risks of litigation from customers and punitive actions from regulators can be minimized.

Guidelines to Trainer for Step 3

Suggested Duration:

8-hour classroom training (plus 32-hour self-paced learning, such as on-the-job training, self-study and report writing etc.)

Teaching and Learning Methodology

Learners should be taught through a "participant centered orientation" with a dual emphasis centered on lecture, inquiry-led teaching and learning practice. Trainers should conduct lectures and use examples in the training materials to illustrate the concepts. Learners should be encouraged to draw on their work experience to apply concepts to real world scenarios.

Learning Topics at-a-glance

- Leveraging bank's resources to cater to customer's genuine needs
- Benefits of cross selling
- Identifications of cross selling opportunities
- Downsides of cross selling
- Bank's requirements on cross selling
- Increase effectiveness on cross selling
- Product-need matching to comply with bank's requirements
- Product-need matching based on segmentation
- Product-need matching based on risk profiles
- Benefits of product-need matching

Summary of activity

- Lecture (suggested to keep it not more than 30% of the classroom training hours)
- Experience sharing
- In-class activity 1 & 2 – group discussion & presentation
- Exercise 3 & 4 – case study

Methods of Assessment

ILOs will be assessed through case studies. Learners should analyze a case related to matching products with a customer's needs, cross selling and providing appropriate responses to the case questions.

Further Reading

Benchmark (2011) "*Citi Investment into Understanding Customers Pays Off*" [online] Available at:<http://fundasia.net>

Office of the Commissioner of Insurance (2013) *"Cooling-off Period for Long Term Insurance"* [online] Available at <http://www.oci.gov.hk>

The Boston Consulting Group Inc. (2002) "*The Three Golden Rules of Cross-Selling*"

Curry Pelot (2010) *"Driving Organic Growth: 5 Steps to Profitable Cross-selling"* [online] Available at: <http://www. bankintelligence.fiserv.com>

HKMA circular (8 April 2016), *"Feedback from recent reviews of the selling of investment products"*, Hong Kong

HKMA Circular (20 May 2010), *"Implementation of Pre-Investment Cooling-off Period for Retail Customers"*, Hong Kong

SFC, *"Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission"*, Hong Kong

SFC, *"Q&A on Unsolicited Calls Exclusion Rules",* Hong Kong

HKMA Circular (25 Mar 2014), "*Circular Issued by the Securities and Futures Commission ("SFC") on Selling of Complex Bonds and High-Yield Bonds*", Hong Kong

HKMA Guideline (22 April 2013) "*Selling of investment-linked assurance scheme (ILAS) products*", Hong Kong.

HKMA Guideline (17 Dec 2014) "*Disclosure of Remuneration Receivable in respect of Sale of Investment-Linked Assurance Scheme ("ILAS") Products*", Hong Kong.

In-class Activity 1 for Step 3: Product-need matching

Information to participants:

Form a group of 4-6 persons to discuss and then present to the class based upon the following parameters:

(a) Think of a customer you previously sold him/her retail banking products/services
(b) Describe the customer's needs based upon segmentation and risk profiles
(c) Describe the products/services you introduced to the customer and the bank's requirements of selling this type of products/services
(d) Analyze how the products/services introduced can meet the customer's needs based upon the segmentation and risk profiles criteria and complied with the bank's requirements.

Instructions to trainer:

In the presentation to trainer, learners must be able to demonstrate the following skill competencies to ensure the Intended Learning Outcomes can be achieved.

(a) Learners must be able to identify how they determine the customer's needs based upon the segmentation and risk profiles criteria. For example, affluent customers with medium to high-risk type may need more sophisticated products/services to satisfy their needs e.g. wealth creation needs. The skill competency here is the ability to determine customer's needs based upon segmentation and risk profiles.
(b) Learners must be able to identify products/services introduced to the customer and spell out the requirements of the bank on selling these products/services. The skill competency here is the ability to identify appropriate products/services based upon customer's segmentation and risk profiles and the bank's requirements.
(c) Learners must be able to analyze and explain how the identified products/services can cater to the needs of the customer based upon his/her segmentation and risk profile criteria and simultaneously fulfill the bank's requirement. The skill competency here is the ability to justify product-need matching based upon segmentation, risk profiles and bank's requirements.
(d) The assessment rubric for this In-class Activity 1 is as follows:
    1. Distinction: identification and full elaboration of (a), (b) and (c) and additional insightful points
    2. Pass: identification and full elaboration of (a), (b) and (c)
    3. Marginal Fail: identification and full elaboration of two out of (a), (b) and (c)
    4. Fail: identification and full elaboration of one or less out of (a), (b) and (c)

In-class Activity 2 for Step 3: Product-need matching

Information to learners:

Form a group of 4-6 persons to discuss and then report to the class based upon the following parameters:

(a) Think of a customer you previously cross-sold him/her retail banking products/services.
(b) Explain how you identified this cross-selling opportunity.
(c) Explain your bank's requirements on cross-selling and how your cross-selling product/services can fulfill the bank's requirements.

Instructions to trainer:
In the report to trainer, learners must be able to demonstrate the following skill competencies to ensure the Intended Learning Outcomes are achieved.

(a) Learners must be able to explain how they identified this cross-selling opportunity. The skill competency here is the ability to identify cross selling opportunities through different situations.
(b) Learners must be able to stipulate the bank's requirements on cross-selling. The skill competency here is the ability to spell out the bank's requirements so that sales staff can gauge whether the whole selling process can fulfill the bank's requirements on cross-selling.
(c) Learners must be able to analyze and explain how the cross-selling products/services can fulfill the bank's requirements on cross-selling. The skill competency here is the ability to justify the cross-sold products/services and fulfill the bank's requirements on cross-selling.
(d) The assessment rubric for this In-class Activity 2 is as follows:

1. Distinction: identification and full elaboration of (a), (b) and (c) and additional insightful points
2. Pass: identification and full elaboration of (a), (b) and (c)
3. Marginal Fail: identification and full elaboration of two out of (a), (b) and (c)
4. Fail: identification and full elaboration of one or less out of (a), (b) and (c)

Exercise 3: Case study

Case Background:

- RM sold an investment linked assurance scheme (ILAS) product to a 35-year-old woman who had no prior investment experience. Her monthly income was less than HK$7,000 and her total life savings was HK$380,000.
- The product required her to pay a premium of HK$300,000 per year for five years.
- After one year, the woman wanted to exit the investment linked assurance scheme. However, she then found that if she exited, she would suffer an early termination penalty amounting to 30% of the value of her investment. It should be noted that the Bank failed to provide evidence that the early termination clause was adequately explained to the customer.
- The regulatory authority took the necessary supervisory and disciplinary actions against the bank. The bank then agreed to cancel the policy and refunded the full amount of the first year's premium to the customer. The bank staff member concerned was suspended by the regulatory authority from selling investment products for three years.

Question:

- What did the RM do wrong in this case?

Exercise 3: Case study

Suggested Answers:

- The staff member disregarded the customer's financial circumstances. The total premium would have been HK$1.5 million, which was four times her life savings or 18 times her annual income.
- The customer found that her life savings had largely been used up through paying the first premium. Then, when she needed to pay the second annual premium of HK$300,000, she naturally wanted to exit from the investment. During this time, the customer found out about the early cancellation policy. However, since the bank could not produce any evidence that this penalty was clearly explained to the customer, it appears that the staff member had not explained the penalty to the customer adequately.
- The customer lacked investment experience, which meant she was a vulnerable customer when the bank sold her the investment linked assurance scheme. The product sold did not match with the investment experience of the customer.
- Intermediaries selling ILAS, should, among other things, have sufficient understanding of the products' nature and structure, conduct financial needs analysis and risk profile assessment for clients to ensure product suitability for the client, and to explain product risks and features to clients. In addition, Product Key Facts Statement (Product KFS) of all ILAS must comply with the enhanced disclosure requirements in order to continue to be marketed to the Hong Kong public since June 2013. In addition, Banks should also adopt the necessary standards in making pre-sale remuneration disclosure, among other things, in order to provide customers with sufficient and relevant information about the remuneration and facilitate customers in making informed decisions. For details, you can refer the HKMA guideline Selling of investment-linked assurance scheme (ILAS) products dated 22 April 2013 and Disclosure of Remuneration

Receivable in respect of Sale of Investment-Linked Assurance Scheme (“ILAS”) Products dated 17 Dec 2014.

Assessment Rubric:

- For this case study, learners need to identify the following:
  (a) The Bank’s staff disregarded the customer’s financial circumstances. Evidence should be quoted by learners to support this claim;
  (b) The inability of the Bank to prove that its staff did explain clearly the penalty from early termination indicated that the explanations were not recorded properly for future verification purpose.
  (c) The Bank did not match the risk profile of the investment product with that of the customer.
  (d) The applicable regulatory requirements in selling of ILAS products.
  (e) The assessment rubric for this case study is as follows:
    1. Distinction: identification and full elaboration of (a), (b), (c) and (d) and additional insightful points
    2. Pass: identification and full elaboration of (a), (b), (c) and (d)
    3. Marginal Fail: identification and full elaboration of three out of (a), (b), (c) and (d)
    4. Fail: identification and full elaboration of two or less out of (a), (b), (c) and (d)

Exercise 4: Case study

Case Background:

- In order to increase the cross selling of investment products, a bank offered a savings account with a preferential interest rate. However, this was only for customers who purchased a structured investment product. So, customers could only have the preferential interest rate if they purchased investment products. The two products were bundled to sell as a package.

Question:

- How should the bank staff promote this product?

Exercise 4: Case study

Suggested Answers:

- Under section 3.11 of the SFC's Code of Conduct, in promoting a specific investment product to a client, a licensed or registered person should not offer any gift other than a discount of fees or charges. In this regard, the Bank may consider avoiding offering a preferential interest rate for the saving account. Instead, other attractions could be considered, e.g. waiver or discount of account maintenance fees or subscription fees or relevant charges. Besides this, in case the customer is not an existing client of securities (definition please refer to section 174 of the SFO), staff engaged in cross-selling shall not use this opportunity to offer their products or services unless the client specifically requests such products or services. It is allowable to distribute promotional materials, however, during the process of distribution, it is not allowed to enter into any interactive dialogue with the recipient on the contents of the materials unless the recipient has first asked for more information in relation to the materials. Reference can also be made to SFC's Q&A on Unsolicited Calls Exclusion Rules and section 174 of the SFO.

- The staff should clearly explain that the risk of the total package is different to the risks of just having the saving account alone. The initial capital in a saving account is guaranteed, and the only variable is the interest rate. However, initial capital invested in structured investment products is not guaranteed and so the customer could lose part or all the investment. In this case, the risk profiles of the components are clearly very different and, when combined, the level of risk associated with the structured product component could negate the safety of the saving account.

- Staff need to clearly inform the customer about how the risk will change by purchasing the bundled package rather than purchasing the components separately. This explanation should be clearly documented through written or verbal means.

Assessment Rubric

For this case study, learners need to identify the following:

(a) Particular care should be made to avoid violation of the SFC's Code of Conduct section 3.11 Use of gifts by distributors in promoting a specific investment product and restrictions on unsolicited calls.

(b) The Bank's staff should explain clearly the risk profile of the two components in the bundled package. The money in the saving account is guaranteed while the structured investment product is not guaranteed;

(c) This explanation of the risk profiles should be documented in a recordable format for future verification purpose.

(d) The assessment rubric for this case study is as follows:

1. Distinction: identification and full elaboration of (a), (b) and (c) and additional insightful points
2. Pass: identification and full elaboration of (a), (b), and (c)
3. Marginal Fail: identification and full elaboration of three out of (a), (b), and (c)
4. Fail: identification and full elaboration of two or less out of (a), (b), and (c)

Step 4: Product Presentation – Present recommendations for suitable products according to bank guidelines

4.1 Intended Learning Outcomes (ILOs)

After completing this step, learners should be able to:

- Present recommendations to customers on products matching customers' genuine financial needs according to bank's guidelines
- Employ different communication skills to ensure customer's understanding and be able to communicate precisely and concisely and in a manner that matches with the iterative style of customers and check customer understanding and ask for acceptance of recommendations tactfully

4.2 Guidelines on presenting products to customers

- To earn and keep the customer's confidence and trust, banks should treat customers fairly throughout the selling process.

- Although different banks have different guidelines, an RM should follow three general principles when presenting products to customers: Firstly, banking products and services should cater to the genuine needs of the customers. Therefore, the RM should assess the financial capabilities and needs of customers before offering them a service, advice or product. Secondly, when providing advice or selling financial products, the RM should consider the customer's interests. This includes the customer's profile and the complexity of the banking services or products in question. Thirdly, the RM should also understand and act according to the principle that all sales are initiated for the benefit of the bank and customer. This emphasizes the imperative of conducting proper KYC before selling to customers.

- KYC and suitability assessment can be divided into several areas.

  Identify the customer and their characteristics: the RM needs to be satisfied on reasonable grounds about the identity, address and contact details of the person or entity ultimately responsible for originating the instruction in relation to a sales transaction. For example, if a customer brings in funds to purchase investment products, the RM has a legal duty to ascertain the source of the funds. The RM also needs to be satisfied the person or entity that stands to gain the economic benefit of the transaction will bear its economic risk.

  The customer's investing characteristics can be related to their risk profile. Generally, we can divide a customer's risk profiles into low, medium and high risk categories and the RM should follow bank procedures such as using questionnaires to determine which risk category the customer belongs. Based upon the customer's risk profile, the RM should then recommend appropriate retail banking products to the customer, which are consistent with their risk profile and meet their needs. Through the exercise of due diligence, the RM should, when making a recommendation or solicitation, ensure the suitability of the recommendation or solicitation for that client is reasonable in all the circumstances. For example, a customer with a low risk profile and looking for steady interest income may be served appropriately by fixed deposit products. A recommendation for a derivative product may be unreasonable in this circumstance. The key aspects to ensure suitability obligations in presenting products to customers, among other things, include:-

(a) Matching the risk return profile of each recommended investment product with each of the client's personal circumstances. The RM should use their professional judgement to assess diligently whether the characteristics and risk exposures of each recommended investment product (including transaction costs, effect of gearing and foreign currency risks, where appropriate) are actually suitable for the client and are in the best interests of the client, taking into account the client's investment objectives, investment horizon, risk tolerance, and financial circumstances, etc.

(b) RM must not take commission rebates or other benefits to be received by them or their related companies as the primary basis for recommending particular investment products to clients. In cases where the RM only recommends investment products which are issued by their related companies, they should disclose this limited availability of products to each client.

(c) RM should exercise extra care in advising elderly or unsophisticated clients or those who may not be able to make independent investment decisions on complex investment products and rely on RM for advice, particularly when these clients invest in investment products with long maturity periods and those which will attract hefty penalty charges upon early redemption or withdrawal (for more information, you can refer to the HKMA's Guideline dated 20 May 2010 Implementation of Pre-investment cooling off for Retail Customers)

(d) RM should provide each client with recommended investment products' prospectuses or offering circulars and other documents relevant to the investments. It is not enough for the RM to hand over these documents and ask the client to read them or merely read the documents to the client. In order to help the investing public to understand the key features and risks of an investment product (namely funds, investment-linked assurance schemes and unlisted structured investment products), a product Key Facts Statement (KFS) has to be provided to customers under the SFC requirements. While for currency-linked instruments and interest rate-linked instruments that are not regulated by the SFC, AIs need to produce important facts statements (IFS) under the HKMA Guideline dated 18 April 2011.

(e) RM should help each client to make informed decisions by giving the client proper explanations of why recommended investment products are suitable for the client and the nature and extent of risks the investment products bear. In addition to explaining the good points of the investment products, the RM should always present balanced views, drawing the client's attention to the disadvantages and downside risks as well. The RM should use simple and plain language, and in a language that the client can readily understand. The explanations must be fair and not misleading.

(f) Each client should be given sufficient time to digest, consider and evaluate the information and recommendations provided by the RM and be given sufficient opportunity to raise queries with the RM. Under no circumstances should the RM use high-pressure or unfair techniques to force or entice any client to make hasty investment decisions.

(g) RM should document and provide a copy to each client of the rationale underlying investment recommendations made to the client. Special handling procedures, such as supervisor's approval and declaration by clients were required if the products risk ratings exceeded the customer's risk tolerance level.

(h) To demonstrate compliance with regulatory requirements, the RM should document and record contemporaneously the information given to each client and the rationale for recommendations given to the client, including any material queries raised by the client and the responses given by the RM.

For more details, the RM should make reference to the SFC's Code of Conduct for Persons Licensed by or Registered with the SFC and the SFC's FAQ Suitability obligations of licensed and registered persons.

Set out and clearly explain the key features, risks and terms of the products: including any fees, commissions or charges applicable to customers. Appropriate information should be provided to customers before, during and after the point of sale. In particular, RMs are reminded to give adequate pre-sale disclosure to customers of sales related information, including monetary and non-monetary benefits received in selling investment products regulated under the SFO, in accordance with the requirements of paragraphs 8.3 and 8.3A of the SFC's Code of Conduct.

The gist is that the RM should not only concentrate on the positive aspects or potential returns of the products, but also disclose the associated charges and risks so that a full picture of the product can be presented to the customer. During the whole sales process, especially when concluding the sale, the RM must ask whether the customer fully understands the transaction. A positive verbal response from the customer is needed to fully comply with this principle. For example, when an RM sells a mutual fund to a customer, he must advise on the past performance of the fund, the risk that the fund's value may go up or down due to the market and if there are subscription fees to be levied. The last two points together with the key features of the fund need to be repeated to the customer and a positive verbal or written response must be obtained from the customer to fully comply with this principle.

Accuracy of the materials and information: written and verbal information must be accurate and understandable. False, misleading, deceptive or disparaging representation of information must be avoided. Verbal information used by an RM must match with printed information in promotional materials. If any features of a product are negative, those features cannot be ignored and the RM must point out these features. For example, there might be a restriction on the liquidity of the investment fund - one of the features of the fund might be that there are only two days in a month that the fund can be sold. The promotional materials and verbal advice to the customers must include this point so that the customer can make an informed decision about the product and so avoid complaints in the future.

- Although different banks have different selling guidelines, Appendix 1 is an extract from a retail bank in Hong Kong showing the selling process of a Certificate of Deposit (CD) and the application of the three principles to the selling process. It is assumed that KYC on the identity of the customer was satisfied.

Guidelines to Trainer for Step 4

Suggested Duration:

4-hour classroom training (plus 16-hour self-paced learning, such as on-the-job training, self-study and report writing etc.)

Teaching and Learning Methodology

Learners should be taught through a "participant centered orientation" with a dual emphasis centered on lectures; and inquiry-led teaching and learning practice. Trainers should conduct lectures and use examples in the training materials to illustrate the concepts. Learners should be encouraged to draw on their work experience to apply concepts to real-life scenarios.

Methods of Assessment

ILOs will be assessed through a case study, where learners should analyze a case related to presenting suitable products to customers according to bank guidelines and then provide appropriate responses to the case questions.

Learning Topics at-a-glance

- Guidelines when presenting products to customers

Summary of activity

- Lecture
- Experience sharing
- In-class activity – group discussion & presentation, role play
- Exercise 5 – case study

Further Reading

Clifford Chance (2013) '*Hong Kong Court again places reliance on contractual terms to dismiss mis-selling claim against Private Bank'* 14 March [online] Available at: < http://cliffordchance.com>

George Dawson and Peter So (2013) 'Mis-selling financial products' *South China Moring Post*, 2 January [online] Available at: < http://scmp.com>

Hong Kong Monetary Authority (2012) *Applicability of Enhanced Measures to Sales of Investment Products to Private Banking Customers*, Hong Kong

Hong Kong Monetary Authority (2011) *Selling of Investment Products to retail customers*, Hong Kong

Hong Kong Monetary Authority (2013) *HKMA and the Protection of Bank Customers*, Hong Kong

Hong Kong Monetary Authority (2013) *Treat Customers Fairly Charter*, Hong Kong

Hong Kong Monetary Authority (2011) *Important Facts Statement (IFS) for Currency-Linked Instruments and Interest Rate-Linked Instruments Issued by Authorized Institutions (AIs) ("ILCL instruments")* , Hong Kong

Securities and Futures Commission (2007) *Suitability obligations of licensed and registered persons who are engaged in financial planning and wealth management business activities*, Hong Kong

Timothy Loh (2012) '*Selling Practices: Lessons for Regulated Firms from the SFC's Recent Inspection*', Hong Kong

In-class Activity 1 for Step 4: Products Presentation

Information to learners:

Form a group of 4-6 persons to discuss and then present to the class based upon the following parameters:

(a) Think of a customer you previously sold him/her retail banking products/services.
(b) Explain how the three basic principles, namely, catering to genuine needs of the customer, considering the customer's interest and the bank's interest were applied in the presentation.

Instructions to trainer:

In the report to the trainer, learners must be able to demonstrate the following skill competencies to ensure the Intended Learning Outcomes are achieved.

(a) Participants must be able to explain the three basic principles, namely, catering to genuine needs of the customer, considering the customer's interest and the bank's interest were applied in the presentation. The skill competency here is the ability to apply the three principles in the presentation of the products/services to the customer.
(b) The assessment rubric for this in-class activity 1 is as follows:
    1. Distinction: identification and full elaboration of the three principles stipulated in (a) and additional insightful points
    2. Pass: identification and full elaboration of the three principles in (a)
    3. Marginal Fail: identification and full elaboration of two out of the three principles in (a)
    4. Fail: identification and full elaboration of two or less out of the three principles in (a)

In-class Activity 2 for Step 4: Product Presentation

Information to learners:

Form a group of 3 persons. Each member in the triad will take turns to be the Customer, the RM and the Observer. The details of the case are below.

- Each customer may feel free to select a retail banking product and ask the RM to present it to you. (Suggested props: a leaflet from branch)
- The RM will
  - Know your customer
  - Learn about the customer's genuine needs
  - Conduct product-need matching
  - Clearly explain the product features and benefits
  - Disclose any risks, if applicable
- In the role play, Observers should observe and report whether the RM demonstrated the required skills.

Instructions to Trainer

Trainer should walk around to give comments to each group and then invite a couple of groups to present the role-play in front of the class. The trainer's comments should be related to the following skill competencies to ensure the Intended Learning Outcomes are achieved.

(a) Learners must be able to explain the three basic principles, namely, catering to genuine needs of the customer, considering the customer's interest and the bank's interest were applied in the presentation.

(b) This is different from a presentation skills training. The skill competency here is the ability to apply the three principles in the presentation of the products/services to the customer.

(c) The assessment rubric for this in-class activity 2 is as follows:

1. Distinction: identification and full elaboration of the three principles stipulated in (a) and additional insightful points
2. Pass: identification and full elaboration of the three principles in (a)
3. Marginal Fail: identification and full elaboration of two out of the three principles in (a)
4. Fail: identification and full elaboration of two or less out of the three principles in (a)

Exercise 5: Case study

Case Background:

- Wong opened a deposit account. Later, the bank conducted fact finding on existing deposit customers to identify cross sale opportunities. The RM identified Wong as a potential customer and introduced her to various conservative investment products as an alternative to her deposit.

- Wong, an inexperienced investor, made it clear to the bank that she wanted to invest her savings in a conservative manner. The risk profiling of Wong also indicated that she was a low risk type. The RM then introduced a conservative 90% principal guarantee investment fund.

- Several months later, the bank signed contracts with a third-party to distribute small cap funds in emerging markets denominated in USD through the bank's network. The bank set a sales quota for the emerging market fund for its sales staff.

- The RM approached Wong to sell the equity funds. However, Wong advised that she had no more money to purchase the fund because all her savings were tied up with the 90% principal guarantee investment funds. The RM then suggested Wong gear up her existing investment by borrowing a loan denominated in YEN and use the 90% guaranteed fund as collateral; and then use the loan proceeds to buy the emerging market fund. The rationale presented by the RM towards Wong were:

    I. Wong could earn double returns, one from the conservative fund and one from the emerging market fund with the potential yield from the latter higher than the former. Past records of the two funds supported the RM's claims. The RM explained that based on past records, it was highly unlikely the funds would go down substantially.

    II. The interest rate on YEN loan was very low.

    III. The overall portfolio of Wong was indeed not very high because the 90% guaranteed fund somehow mitigated the higher risk from the emerging market fund.

- Since the emerging market fund was a third-party product, the RM was not completely familiar with the product. Although a brief training session was provided by the third party, the RM still did not thoroughly grasp the product features or the risks of the product. Subsequent recordings indicated that the RM advised Wong only that the emerging fund had a higher risk than the 90% principal guarantee fund. In addition, since the emerging market fund was only a third party product, the RM envisaged that if anything went wrong, the third party, not the bank, would bear the ultimate responsibility.

- Later, the value of the emerging market fund plunged and caused Wong a loss. Wong had to cut losses and sold the emerging market fund to pay back the YEN loan. To make the situation worse, the YEN had appreciated substantially against the USD at that time and Wong suffered another loss - foreign exchange loss.

Question: What did the RM do right or wrong?

Exercise 5 – Case Study

Suggested Answers:

- Initially, the RM correctly recommended a conservative investment – 90% principal guarantee fund, which as an inexperienced investor, catered to the "low risk type" risk profile for Wong.

- The RM made the following errors:

  (a) He should not have recommended taking out a loan in YEN to buy the emerging market fund because these two actions entailed much higher risks for Wong. The interest rate of the YEN loan and the exchange rate of YEN against the USD could move adversely to cause Wong to suffer losses. As an inexperienced investor, the recommended products were not in line with the "low risk type" risk profile for Wong

  (b) Despite the past track records of both funds being impressive, the RM should have advised Wong that past records did not predict future performance. As a result, Wong could expect the funds' performance to deviate substantially from past records. The RM should not have speculated about the future movements of the fund and should not have presented a positive picture to Wong.

  (c) The calculation of risk by the RM was incorrect. Borrowing YEN and using the proceeds to buy an emerging market fund substantially increased the risk of the portfolio. Wong not only took out a loan, which she needed to pay interest on, but also invested the borrowed funds in another risky investment – the emerging market fund. The 90% guaranteed fund did not mitigate the risk of the emerging market fund in this case. (4) When the RM realized that he might not have adequate understanding of the third party product, he should have made sure he fully understood the product features and risks of the third party product. He needed to find further knowledge from the third party. If he fully understood the product, he could have explained the risks of the product in much more detail.

  (d) The RM was wrong to think that because he was selling a third party product that the responsibility towards the customer would be lower. Indeed, he needed to conduct product due diligence and observe all the KYC procedures of the bank - the same as selling the bank's own proprietary products. Selling a third party product did not negate the responsibility or liability of the RM or the bank.

  (e) In respect of recommendations or solicitations involving investment funds, in determining whether a fund is suitable for a customer, it should be noted that tenor mismatch may be relevant where the fund has specific tenor (e.g. guaranteed and structured funds where the issuers have provided capital guarantees and/or promised payouts to investors).

Assessment Rubric

- For this case study, learners need to identify the following:

  (a) The Bank did the right thing initially by introducing a principal guaranteed product to match the risk profile of the customer.

(b) The Bank acted inappropriately later on by introducing the YEN loan/emerging market fund which were inappropriate for the risk profile of the customer.
(c) The risk analysis presented by the Bank's staff was incorrect.
(d) The Bank's staff member was mistaken that the Bank had a lower responsibility when selling third party products.
(e) The Bank's staff member did not seek improvement in his/her understanding of the underlying risk profiles of the products.
(f) The assessment rubric for this case study is as follows:
    1. Distinction: identification and full elaboration of (a) to (e) and additional insightful points
    2. Pass: identification and full elaboration of (a) to (e)
    3. Marginal Fail: identification and full elaboration of four out of (a) to (e)
    4. Fail: identification and full elaboration of three or less out of (a) to (e)

Step 5: Buying Signals – Identifying buying signals

5.1 Intended Learning Outcomes (ILOs)

On completion of this step, learners should be able to:

- Understand the psychology of persuasion
- Understand and handle objections
- Identify buying signals
- Build trust in the selling process

5.2 Psychology of Persuasion: One Perspective

Psychologist, Robert Cialdini, studied persuasion from the perspectives of social and behavioral psychology. His research concluded that the most successful influence techniques can be grouped into six categories each of which is grounded in the fundamental psychological principles that direct human behavior.

(1) **Commitment and consistency**: people are believed to have an obsessive desire to appear to be consistent with what we have already done. Pressures to behave consistently with commitments will cause people to respond in ways that justify our earlier decisions. Therefore, if an RM can get a customer to make an initial commitment, the RM will then set the stage for the customer's automatic consistency with that earlier commitment. The technique here is to make someone engage in a small action first. Then, after they are committed, they are likely to accept larger ideas or actions. For example, an RM may offer a credit card with annual fees waived to customers to try out the bank's services. Then, the RM can incrementally introduce other products such as moving a saving account to the bank so that the saving can be used to settle the credit cards through autoPay. The initial commitment by the customer to accept a credit card can lead to the customer subscribing to other products and services in the future as a way to maintain the consistency between the prior commitment and the present action.

(2) **Reciprocation:** the rule of reciprocation states that one should try to repay, in kind, what another has provided us. Its power comes from the importance given to the principle of reciprocation in human society. This is the same in retail banking. An RM can initiate to help customers before their sales pitch. Since banking is service-oriented, an RM can offer services or information that customers genuinely need.

For example, a customer with children studying overseas has a need to wire money regularly. Therefore, the RM can take the initiative to check the wire charges and may conclude that it is generally less expensive for the customer to settle all remittance charges locally, rather than let the overseas recipient bank levy remittance charges. The RM can explain this situation to the customer as a goodwill gesture to help the customer save money. In addition to professional advice, an RM can sometimes give presents. During festivals, customers might receive red packets or calendars with the bank's logo. The relationship between the RM and the customer is further enhanced. This does not mean that the presents must be expensive or that the information has to be confidential. It simply means that the information and presents possess a value that the customer treasures. This will help secure the relationship in the future.

(3) **Social proof:** the principle of social proof states that one way we use to find correct behavior is to find out what other people think is correct. In general, if we are unsure of ourselves and especially if the situation is ambiguous, we will probably look to other people and accept their choice as correct. In retail banking, an RM can use this technique by using other customers as examples to endorse their products. The objective is to attract customers to purchase these products once they see that other customers have done so too. For example, in a low interest environment, some customers take out personal loans to pursue investment opportunities since the financial cost is fairly low. Therefore, when an RM pitches personal loans to customers, an RM can use this situation to explain how other customers take advantage of low interest personal loans.

(4) **Liking:** research shows that we prefer to comply with the requests of someone we know and like. What is surprising, however, is that total strangers who know how to invoke the “liking” principle often influence people around them. Social scientists have identified several factors that contribute to liking, namely, physical attractiveness, similarity, compliments, contact style, co-operation etc. While there are no strict rules that can ensure someone likes you right away or you can change your physical appearance substantially, there are ways to improve likeability.

For example, when a person meets a stranger, research indicates that attitude is the most important element a person uses to gauge whether the stranger is a friend or an enemy. Generally, a sincere attitude with an open arm posture, eye contact and a smile are generally useful to make a stranger more receptive to you. Also, an RM can do little things to subtly tell the customer that he is on their side. For example, when an RM was selling travel insurance, the customer jokingly mentioned that if he had accidents, his wife would not know he purchased travel insurance in the first place. After hearing this, the RM immediately printed another copy of the travel insurance and gently advised that one copy was for the customer and the other was for his wife. This little gesture, although small, can help the RM to gain a favorable impression from the customer. The principle here is “Before your customer buys your products, they must buy you first”. After an initial conversation, an RM can synchronize his or her own behavior with the customer's behavior. For example, when a customer asks about technical details and data driven questions on opening a stock trading account, the RM should also provide technical detail and data driven answers. Similarly, if a customer is rather hyperactive, the RM can also be a little hyperactive. If a customer is a little timid, the RM can also be a little timid. The principle here is “Similarity increases likeness”.

(5) **Authority:** information from a recognized authority can provide people with a valuable shortcut for deciding how to act in a situation. Moreover, people tend to be influenced as much by the symbols of authority as by the substance, such as titles and positions. For example, the name card of an RM could be printed with professional titles such as CFP “Chartered Financial Planner” to show the customer that the RM has professional knowledge. When an RM introduces themself to a customer, they can use the years of experience in a certain field as an introductory statement to show authority in this area. For example, an RM selling mutual funds can say something like “My name is John. I have worked in the mutual fund industry for over 10

years”. In an era of quantification and data, quoting statistics as support can also show a sense of authority. For example, an RM selling mutual funds to a customer can quote the annual returns of a fund in the past years and compare the return of the fund with market benchmarks to demonstrate the higher returns of his funds.

(6) **Scarcity:** the idea of potential loss plays a large role in human decision making. In fact, people seem to be more motivated by the thought of losing something than by the thought of gaining something of equal value. For example, an RM may advise the customer that the promotion for higher interest rate on fixed deposit will end on a certain date to persuade the customer to take action quickly.

5.3 Psychology of Persuasion: Another Perspective

According to Jay Conger (“The Necessary Art of Persuasion” in Harvard Business Review May-June 1998), effective persuasion is a process of learning and negotiation through which a persuader leads an audience to a shared solution of a problem. The persuader accomplishes this by moving people to a position they don’t currently hold. Conger summarized effective persuasion into four ingredients:

1. **Credibility of the persuader**
2. **Frame for the common ground**
3. **Connect emotionally with the customer**
4. **Reinforce through compelling language and evidence**

(1) **Credibility of the persuader**: credibility generally comes from two sources - expertise and relationships. Since an RM encounters many customers, the chance of establishing expertise is only based on brief interactions. Therefore, borrowing from “authority as a persuasion technique outlined by Cialdini”, an RM can immediately convey authority and hence credibility such as professional titles or number of years’ experience in a particular product. Further, one way to establish credibility immediately is knowledge of the product. Naturally, customers will ask many questions about features of a product recommended by an RM. However, if an RM is unable to answer many of the questions or often defers answers with “We will check and come back to you later”, credibility will be difficult to establish. The second source of credibility is relationship. Those who can be trusted to listen and to work in the best interests of others can easily establish credibility. These people who are known to be honest, steady and reliable have an edge when going into any persuasion situation. In a branch, an RM might interact with some customers regularly. Therefore, by showing honesty, steadiness and reliability, the RM can cultivate these customers and establish relationships based on trust. The RM can easily establish credibility with these customers. When selling new products, these RMs will be in a better position to persuade customers to buy.

(2) **Frame for the common ground:** the gist is that persuasion is not deception. It is just a persuasive way of identifying shared benefits. In order to identify the benefits to the customers for the products recommended by the RM, the most important point is to understand the customer first. In a banking environment, KYC plays a crucial role. For example, when an RM tried to compete

for mortgage business from a customer, he analyzed the customer's cash cycle and understood that the customer's payroll was on a bi-weekly basis. He therefore introduced the customer to the bi-weekly mortgage payment and pointed out that this payment option would not only tie in with the customer's cash inflow, but also help him to save about a quarter of the total interest expenses, when compared with the monthly payment option. The customer appreciated the saved interest expenses and also felt that the RM was sincerely working for his best interests.

(3) **Connect emotionally with the customer**: In many selling situations, it is emotions at play. Good persuaders respond to customers in two important ways. First, they show their own emotional commitment to the position they are advocating. However, such expression is a delicate matter. If the persuader acts too emotional, the audience may doubt his clear-headedness. Therefore, your commitment to a product is not just in your mind but also in your heart. In other words, the persuader needs to preach what he believes.

For example, when an RM sells a forward exchange rate contract to a customer, the customer might resist by claiming that exchange rates may move favorably rendering such contracts unnecessary. In this respect, the RM should be adamant about the benefits of using forward contracts to hedge against exchange rate fluctuations. A slight hesitation from the RM will only reinforce the negativity towards the forward contract in the mind of the customer. Second, good persuaders may have a strong and accurate sense of their customer's emotional state and they adjust the tone of their arguments accordingly. Sometimes that means coming on strong, with forceful points. Other times, a whisper may be all that is required. The idea is that whatever your position, you should match your emotions to your customer's ability to receive the message. This is similar to "the synchronization of the RMs behavior with the behavior of the customer" advocated by Cialdini.

(4) **Reinforce through compelling language and evidence**: Conger found that the most effective persuaders use language in a particular way and supplement numerical data with examples, stories, metaphors, analogies to make their position come alive. The use of language paints a vivid word picture and, in doing so, lends a compelling and tangible quality to the persuader's point of view. For example, when an RM sells e-banking services to a customer, the RM can go beyond the technical details of the e-banking system and paint a picture of his customer sitting comfortably on a beach on the other side of the world and being able to manage his finances through e-banking.

5.4 Four Ways Not to Persuade

(1) **"Don't make a strong case with an up-front and hard sell":** an RM might strongly state his position at the start, and then through a process of persistence, logic, and exuberance try to push the idea to a close. This approach might give customers a feeling that the RM is overbearing and imposes ideas on the customer by force.

Previously, it was noted that attitude was the most important element a person could use to gauge whether a stranger was a friend or an enemy. Therefore, do not push the customer to become an enemy through hard selling. For example, an RM trying to sell a personal loan states at the start that extreme low interest rates are a compelling reason to accept a loan; and then force this on the customer. The customer sensing such pressure placed on him may start to fight back. The point is not about whether the interest rate is attractive or not. The point is that the customer might reject such a hard sell by the RM trying to impose a product on him. As the saying goes "The harder you press, the more it rebounds".

(2) **"Don't think the secret of persuasion lies in presenting great arguments"**: If a customer senses an RM is debating with him, it will move the customer into an opposing position and enable the customer to fight against the merits of the products. Therefore, the danger is that if an RM sees persuasion as a debate, they will likely end up winning an argument and losing a customer. For example, an RM trying to sell an investment fund with many merits such as strong track record, right timing and star fund manager. The RM took an approach where he was actually debating with the customer about the merits of this fund. During the presentation, the customer raised a question. However, the RM asked the customer to let him finish talking about how good the fund was. Then, the RM also enjoyed shooting down any counter-arguments subsequently presented by the customer. The RM seemed to win the debate. He then tried to close the deal in an authoritative way. However, the loser of the debate i.e. the customer, was unlikely to buy from the winner. Refusing to buy was payback for the RM.

(3) **"Don't treat persuasion as a one-way street and resist compromise":** Kathleen Reardon, a professor of organizational behavior at the University of South California, points out that a persuader rarely changes another person's behavior or viewpoint without altering his or her own in the process. Therefore, the danger is that if an RM sees compromise as surrender, it will be difficult to achieve constructive persuasion. However, before a customer buys into a proposal, they want to see that the persuader is flexible enough to respond to their concerns. Compromise can often lead to a better, more sustainable shared solutions. For example, an RM trying to sell an investment fund to a customer might find that the sticking point is the subscription fees to be charged. However, part of the subscription fee is actually the rebate to the RM as sales commission. As a last resort, the RM might be willing to reduce the subscription fee to close the deal.

(4) **"Don't assume persuasion is a one-shot effort":** persuasion is a process, not an event. An RM will only rarely find a shared solution with the customer on the first try. In fact, persuasion often involves listening to people, testing a position, developing a new position that reflects input from the customer, more testing, incorporating compromises, and then trying again. For example, an RM selling insurance to a customer will try to obtain personal data and individual circumstances from the customer during the initial meeting. Then, the RM will prepare a proposal based on the information provided, explain the proposal, negotiate terms and conditions such as premiums or particular perils need to be included. The process is on-going and loops back and forth. Then, at a certain moment in the process, a deal is struck. Unfortunately, you will often find this to be a slow and difficult process.

5.5 Types of objections and handling methods

Objections fall into <u>six major categories</u>:

1. **Product objection**
2. **Source objection**
3. **Price objection**

4. **Budget objection**
5. **Need objection**
6. **"I have to think about it" objection**

(1) **Product objection**: this reflects concerns about the performance of a product. Unfortunately, customers might be unfamiliar or misunderstand how products work. Therefore, listening is an important skill to use, especially when a customer voices a product objection. However, this is actually a very good opportunity for the RM to use product knowledge to bring out all the positive attributes of the product. Also, the RM can use testimonials from other customers, industry or third-party research to support his claims. It is also important to note that if the objection is based on the customer's prejudices, the RM can clarify the situation.

For example, an RM of a large retail bank trying to sell foreign exchange services may need to deal with a perception from customers that exchange rates from large retail banks are always unfavorable. An RM can quote their bank's current exchange rates to show that their rates are comparable with competitors. However, what the RM actually does is to simply reduce the mark-up in the exchange rate to ensure the competitiveness of the rate quoted. Even when the rate quoted by the RM is not competitive, the RM can demonstrate that he can obtain a more favorable rate when the amount involved exceeds a certain threshold. This can demonstrate to the customer that their rates can be competitive if the business volume is justified.

(2) **Source objection:** this reflects concerns about the company selling the products. Source objection may be voiced with comments about the stability or financial health of the company. This objection might also be raised about how the company does business or that the company is not a household name. However, this allows another opportunity for the RM to help the customer to understand the bank's strengths. For example, an RM of an internationally renowned bank entering an emerging market might have difficulty introducing his bank because it is not a household name locally. The RM can then emphasize the strengths of the bank such as its credit rating from an international rating agency, the ranking of the bank in its home country, total assets of the bank and worldwide geographical coverage. The objective is to ease the concerns of the customers and address these concerns through the strengths of the bank.

(3) **Price objection**: this reflects concerns about the price of the products or services. The motives for raising price as a concern vary, but generally can be divided into two categories.

First, the customer fails to see the value of the product and why it actually warrants a higher price. Naturally, the RM can explain the true value of the product to the customer. In many situations, the name of the products in retail banking are more or less the same among different banks. However, the features and attributes might be very different. It is these differences that can actually bring a higher value to the customers. A higher price might mean better features. For example, an RM trying to sell a saving account with a minimum balance requirement might find common objections such as "this is just another bank account". Minimum balances might also raise concerns from the customer as it is the "price" higher than that of other bank accounts, which do not require minimum balances. However, after seeing that the customer occasionally has an erratic cash inflow, the RM might further explain one of the account's major benefits - when the deposit balance exceeds a certain threshold, it will automatically receive a higher interest rate.

Therefore, when the customer receives a large cash inflow, he will no longer need to call the bank periodically to see if it is worthwhile to park the extra cash into a deposit to earn a higher interest rate. This administrative convenience is the true value of the account and can cater to the cash flow cycle of the customer. This benefit may also overcome the hurdle of minimum balances.

Second, customers often use price objections as a negotiating ploy to see how much price flexibility there is. This price objection may even be due to the habitual behavior of customers to ask for price concessions at every occasion. If the RM can determine that the customer is likely to buy but price seems the hurdle, he might first try to offer further concessions in other products or services to entice the customer to close the current deal. If unsuccessful, the RM might really need to reduce the price to close. He could package it as "approval is needed from a higher authority because it is an exception to offer a discount". The objective here is to let the customer know that price concessions are not easy. Then, the customer will value the opportunity to buy at a special price. This point is related to scarcity as a persuasion technique (Cialdini). However, there is one caution about price concessions as an inducement to sell. If simply reducing the price is the answer, selling would be easy – and probably would not require skills or intuition. Therefore, price reductions can be regarded as a last resort when other alternatives are exhausted. Also, price reduction should also take cost into consideration, as business will generally avoid unprofitable deals.

(4) **Budget objection:** this reflects concerns about the budget constraints of the customer. Usually, customers are unwilling to disclose budget constraints as the real reason. But if the RM reads the customer's financial profile, it should be easy to gauge the rationale behind the objection. For example, an RM trying to sell medical insurance may an encounter objection in price. The RM can think of reducing the coverage amount so that the premium can be reduced proportionally. The RM can also think of changing the payment frequency from a lump sum to a monthly payment plan so that the financial burden to the customer can be eased. If the budget constraint cannot be ameliorated, the RM may decide that this customer should wait until he accumulates a certain net worth large enough to afford the offering. Of course, if the RM is sure that reducing the price can seal the deal, he may consider reducing the price - bearing in mind the cautions mentioned above.

(5) **Need objection:** reflects a concern that the customer's need is already satisfied. Need objection reflects the idiom that "if something is not broken, there is no need to fix it". The customer seems comfortable with their current banker and may not see any benefits in defecting to another bank. Besides this, changing a new banker involves risks. The RM can then explain to the customer that his needs can be fulfilled better by what the RM can offer - the risk is actually in not swapping.

The gist is to let the prospect know how to break an old habit and it is an advantage for them to do so. For example, if an RM tries to sell e-banking to a middle-aged customer who is not IT literate, the RM should explain that personal banking needs can be met through e-banking. This is because when the customer is on-line, there are no constraints for time or location. The RM can also advise that e-banking is becoming a common trend. Also, many more customers will need to use e-banking to meet their needs in future. The sooner the customer adopts e-banking, the sooner he can take advantage of it. Therefore, the risk for the customer is not switching.

(6) **“I have to think about it” objection:** There are two angles to this objection. First, the RM needs to decide if the prospect is really using “I have to think about it” as a polite way to turn down the RM. Perhaps, the customer has no real intention to buy. If this is the case, the RM might be better off by moving on to another customer. Second, if the RM can detect this is actually a delaying tactic and the customer is not completely comfortable with the RM or the products or services. This tells the RM that he needs to bring the customer's concerns to the surface by asking “I want to give you time you need to think about it. But let’s talk specifically about your reasons for buying now rather than later”. The objective is to draw out the customer's real concerns. If the RM senses that stalling is not to the advantage of the customer who shows an interest to buy, the RM can bring out the benefits to purchase the product now rather than later. For example, an RM can use scarcity as a persuasion technique to advise the customer that the high interest rate on the deposit campaign will end very soon and it is in the customer's interest to act now.

- No matter what type of objections the customer raises, objections can be ambiguous and vague; and might include a hidden objection that is the customer does not openly state. The best way to handle hidden objections is to bring them to the surface. In other words, ask questions to get the customer to talk and subtly open up his real objections.

- In this regard, open questions are most useful to draw out the true concerns. There are two types of questions: closed and open. Closed questions will give a simple yes or no answer from the customer. For example, an RM might ask “Do you have a financial need?” or “Are you happy with your current banker?” Open questions can help understand what is important to the customer. For example, an RM can make a short statement such as summarizing the customer’s answers and pointing out areas both the RM and the customer agree and say something like “Tell me more”. If the RM can draw out the main concern from the customer (the concern might belong to one of the different types of objections mentioned above), the RM can simply employ the above techniques to overcome them.

5.6 Do’s and Don’ts of handling objections

Do’s

1. Do see objections as a natural and expected part of the sales process

2. Do maintain eye contact, a mild smile as a common courtesy - do not lose your temper when facing a customer’s objections.

3. Do listen carefully to the objections with the ultimate objective to find out what is the real motive behind the objection

4. Do acknowledge objections with “I can see your concerns” or “Some of my customers have similar concerns”. These types of statements are regarded as a cushion to smooth the emotions of the customer without raising their defenses. Then, the RM can have a clearer platform to preach his point of view

5. Do prepare to prove your own position through product knowledge, statistics, analysis, testimonials or other credible references. In banking, Know Your Bank (“KYB”) is as important as Know Your Customer (“KYC”)

Don’ts

1. Don’t see objections as a personal attack or challenge to your knowledge of the product or your authority. Treat them simply as questions raised by the customer.

2. Don’t argue with the customer and don't make derogatory statements. Derogatory statements are “You are wrong”, “You don’t understand”. Remember that before a customer buys your product, he must buy you first.

3. Don’t make derogative statements about your company, your company’s products or services or competitors. When a customer makes a valid statement about a negative point in your company’s products, simply respond through a cushion statement such as “I can see your concern” or “I respect your opinion” without intensifying the attack on the negative side of the product. The reason being that you should preach what you believe. Because if you side with the customer, why do you preach about your company’s products in the first place? This is an indirect way to destroy your own credibility.

4. Don’t lie to the customer - because sales relationships are built on trust and honesty. It is far better to say “I’ll find out and get back to you later”. Again, this brings out the importance of the RM needing to know about his company, products and services. However, try to minimize the use of such “get back to you later” statements. These can give an unprofessional image and you will lose credibility. As mentioned later, credibility is an important trait of an RM to close a deal.

5.7 Identification of buying signals

When customers are ready to buy, they might not actually tell you in words. However, they might send non-verbal clues. So an RM needs to be able to recognize these clues. In fact, buying signals can be compared to traffic lights with red, yellow and green signals.

RED signals indicate that a customer is not interested. Red signals can be expressed in body language or the customer’s tone of voice.

- Folded arms and crossed legs - these are examples of defensive posture which send a “no” signal.
- Lack of eye contact – this might mean a “no” signal because he is not prepared to buy and so the customer might tend to avoid eye contact with the RM.
- Facial expression – when a customer frowns, this might indicate a “no” signal as he disapproves and disagrees with the RM
- Tone of voice - if a customer is very determined not to buy, he might use a very determined tone of voice such as raising his pitch when saying he is not interested.
- Maintain enthusiasm - the worst thing to do is to immediately reduce your enthusiasm as the customer will interpret that your previous enthusiasm was a phony sales pitch. However, if a

customer does not buy from you this time, they might become a prospect next time - since banking is an on-going relationship.

YELLOW signals indicate that a prospect has some interest, but is not sure whether to proceed

- Smiling and nodding - this indicates the customer is interested.
- Asking questions - spending time talking about a product and asking questions about the details might mean the customer is interested. The longer a customer talks about a product, the more likely he is to be interested. He is investing his time - a sure sign of interest. At this moment, the RM can drill down to give more details about the product so that he is likely to be become more interested. If the customer asks about the functions of the product such as whether a foreign exchange contract can be used to hedge a currency exposure at another bank, he may well have a checklist of points he is looking for. So the RM should ask for details of what his customer is actually looking for. The RM can also ask more about how he will use the product from which the RM can advise on the best buy for him.
- Asking another person for their opinion - the customer is looking for confirmation. Therefore, the RM might find himself selling to the second person also. The RM needs to watch for whether the main customer wants to be the main focus or appreciates others being included. Most likely the other person is an opinion leader in the customer’s mind.
- Asking about processes and steps - when a customer asks about processes and next steps, it usually means he is interested.
- Positive responses - when an RM explains the benefits, the customer might suddenly make positive responses or responses of surprise such as “Interesting”, “I did not know that” or “Really?”, his interest is raised.
- Repeating a question - if a customer does this, he is usually trying to verify something important to him before he buys. Therefore, the RM can reaffirm that important feature for the customer to ease his concerns.
- When an RM is doing almost all the talking and the customer only asks questions occasionally, the RM should not treat the customer as uninterested or interpret this as a red signal. If the customer does not initiate to leave the situation or end the conversation and continues to stay in the conversation physically, he might be indicating that he is interested, but there seems to be something holding him back. Alternatively, perhaps he simply wants to know more information. Then, the RM needs to proceed with caution and use exploratory questions to gauge what is holding him back or what additional information the customer needs to know. The gist is to give some space to the customer, so that he can reflect and voice what he thinks. In this situation, the worst sales behavior would be to continue to give a great deal of information about the product to the customer continuously without gauging the responses from the prospect.

GREEN signals indicate that a customer has a high propensity to buy. The following are typical:

- Seeing something they want - when an RM presents the benefits of a product the pupils of a customer might dilate or they might get excited.
- Asking for the price or discount: this is a good buying signal. The RM can tell the price to the customer or can ask how much the customer is looking to spend. If the customer tells the RM, the RM can help the customer to find the best value to suit the customer's budget.

- Asking about the sales process - when a customer asks how long it will take to finish the sales process, he shows high interest to buy
- Making positive statements - saying “That’s good” or “I like that” or simply “Wow” or positive comparative statements such as “Your products seems more flexible than the other banks’ offer”, all these show buying signals.
- Being indecisive about two options - this is a strong buying signal as he is already juggling between options embedded in the product such as whether the currency of an insurance policy should be in Hong Kong Dollars or United States Dollars. The RM should help the customer to choose and then close the deal.
- Asking about any on-going services or cancellation and refund policy services after the purchase of the product
- Telling the RM what he would do if he had the product such as “I can use the credit card for auto debits for my insurance premium”.
- Asking about availability such as “Will the deposit campaign last until the end of this month?”
- Leaning forward and showing interest in what the RM is saying - an even stronger gesture is leaning forward and picking up a pen seemingly wanting to sign something. If he says he wants to buy, just give him the necessary documents to complete the sale. The key point here is to avoid ‘un-selling’ the product through an over-zealous and unnecessary or after sales pitch. You can use some positive statements to conclude the sale such as “glad to see you purchased the appropriate insurance for your family” or “glad to see you invest in educational funds for your children”.

After getting a buying signal, an RM can use a trial close to get the customer to move from an interest to buy to a decision to actually purchase the products or services.

The above is not a complete list. Every customer is different and a buying signal could be anything. However, the list should help an RM notice different types of buying signals. Therefore, look out for these signals and then the RM can grasp the opportunity to close the deal.

5.8 Build trust in the selling process

- **Focus on the customer:** in the selling process especially at the opening stage of a conversation, an RM should focus on the customer and ask questions to identify his needs rather than talking about the products or services or the RM himself. In other words, focus on the customer and his needs, not on products or the RM. Therefore, an RM must be patient at the beginning and ask questions about the customer, listening closely to the answers as a way to build trust.
- **Focus on genuine needs:** in the selling process, an RM should have the mindset about what the genuine financial needs of the customer are and how the products and services can cater to the customer’s genuine needs. If the customer senses that the overall direction of the RM is to take his needs into account, the customer will be more interested in continuing the conversation and the more trust the customer will place on the RM.
- **Let customers talk:** to find the genuine financial needs of a customer and also understand his individual circumstances, the RM should not interrupt the customer. The more an RM allows a customer to talk, the more the RM can understand them. The direction of the sales will then move towards how to meet the customer’s needs. The customer will appreciate the RM trying

to meet his needs, rather than simply dumping products on him that he does not need. In this way, trust is more likely to be earned by the RM.

- **Speak with authority:** an RM should speak with authority meaning that he discusses intelligently with the customer in a way where the customer will see the RM as the key person to meet his needs. For example, the RM can demonstrate his rich knowledge of the products or experiences in the industry. Then, the customer will place more trust on the RM. This does not mean the RM speaks arrogantly or a know-it-all who has all the answers for all the problems of the customer.
- **Know your product:** in order to earn trust from the customer, an RM needs to equip himself/herself with the technical details of the products or services he is trying to sell. If a customer senses that the RM is very familiar with the products or services, he will be more inclined to trust what the RM said. However, trust will be substantially reduced when an RM cannot answer queries from the customer immediately and needs to check out the queries later on.
- **Use customer testimonials:** these increase the confidence of the customer. Providing tangible points of reference on how an RM’s products and services can meet the customer’s needs and produce positive results can strengthen the message. Customers will then place more trust in an RM’s advice rather than simply treat the advice as another phony sales pitch.
- **Keep your promises:** an RM should keep promises made to a customer. If an RM knows that a request from a customer cannot be fulfilled, it is better to tell the truth to the customer. The customer will look into both the words and actions of an RM to determine his trustworthiness. Empty promises will patronize a customer for a while, but honesty is the best way to build trust with a customer.

Guidelines to Trainer for Step 5

Suggested Duration:

7-hour classroom training (plus 28-hour self-paced learning, such as on-the-job training, self-study and report writing etc.)

Teaching and Learning Methodology

Learners should be taught through a “participant centered orientation” with a dual emphasis centered on lecture, inquiry-led teaching and learning practice. Trainers should conduct lectures and use examples in the training materials to illustrate the concepts. Learners should be encouraged to draw on their work experience to apply concepts to real world scenarios.

Unlike the first 4 steps, the content of Step 5 consists of some soft selling skills which are not so straight-forward, in other words, more abstract for learners to learn and apply. Trainers should remind learners that those soft selling skills are mainly advocated by famous management skills experts & psychologists, such as Robert Cialdini and Jay Conger. These skills are intended for general sales behavior and is not specific for bankers. The associated assessment exercise has been designed to make the learning more lively so that learners can feel the difference.

Methods of Assessment

ILOs will be assessed through matching exercises, where learners should match persuasion techniques, objection handling techniques and buying signals with appropriate scenarios.

Learning Topics at-a-glance

- Psychology of persuasion: one perspective
- Psychology of persuasion: another perspective
- Four ways not to persuade
- Types of objections and handling methods
- Do’s and don’ts of handling objections
- Identification of buying signals
- Building trust in the selling process

Summary of activity

- Lecture
- Experience sharing
- In-class activity – group discussion & presentation
- Exercise 6-10

Further Readings

Brian Tracy (2015) '*Building Trust and Credibility: 7 Steps to Successful Selling*" [online] Available at: < http://briantracy.com>

Robert B Cialdini (2006) *Influence: The Psychology of Persuasion*. Revised Edition: New York: Harper and Row

HSBC (2015) "*Selling Techniques*" [online] Available: <https://www.knowledge.hsbc.co.uk>

Jay A Conger "*The Necessary Art of Persuasion*" Harvard Business Review, May-June 1998.

In-class Activity for Step 5: Identify buying signals

Information to learners:

Form a group of 4-6 to discuss and then report to the class based upon the following parameters:

(a) Think of a customer you successfully sold him/her retail banking products/services.
(b) Explain how you successfully persuade the customer to buy your products/services, handle objections in the selling process and identify buying signals.
(c) Explain how to build trust with the customer in the selling process.

Instructions to trainer:

In the report to the trainer, learners must be able to demonstrate the following skill competencies to ensure the Intended Learning Outcomes are achieved.

(a) Learners must be able to explain how to persuade the customer to buy the products/services, handle objections, identify buying signals and build trust with the customer. The skill competency here is the ability to persuade the customer to buy the products/services in full compliance with internal guidelines and external regulatory requirements, handle objections, identify buying signals and build trust with the customer.

Exercise 6: Exercise on persuasion techniques

Objective: the exercise is for the RM to understand persuasion techniques and appropriate examples.

Required:
Identify & match the persuasion techniques with their examples.

Persuasive Techniques	
1.	Commitment & Consistency
2.	Reciprocation
3.	Social Proof
4.	Liking
5.	Authority
6.	Scarcity
7.	Credibility
8.	Frame for the common ground
9.	Connect Emotionally
10.	Compelling language & evidences

Scenarios	
a.	An RM seeing a customer is sad about so many airplane accidents lately is preaching to the customer to buy travel insurance (10%).
b.	An RM understands a customer cannot afford a huge lump sum premium for an insurance policy so he thoughtfully devised a monthly payment plan for the customer. The customer mentioned that photocopying an insurance policy just purchased from the bank from outside shops is very expensive and the RM immediately copied the policy for the customer (10%).
c.	An RM selling e-banking to a customer explained that the bank's e-banking system could follow him wherever he went. (10%).
d.	A customer asked an RM about many technical terms related to investing in an Indian equity funds concentrating on technology stocks. The RM exhibited high professional knowledge in answering these questions. (10%).
e.	An RM is selling a customer a property protection insurance - the customer previously drew down a mortgage loan. (10%).
f.	An RM after giving red pockets carrying his bank's logo to a customer during the Chinese New Year is probing if the customer is interested to open a children savings account for his/her kids. (10%).
g.	An RM selling a personal loan to a customer is emphasizing that many of his customers are taking out personal loans to pursue investment opportunities in a low interest rate environment. (10%)
h.	An RM in a casual chat with a customer finds out that that their sons are studying at the same school and have much in common. With a common bond established between them, the RM grasped the opportunity to request the customer to open an account in his bank so that he can personally look after his account. (10%)
i.	In a red-hot bull market, an RM advised a customer that his bank was currently promoting equity trading accounts with zero commission for three months. The promotion would only last for one month (10%).
j.	An RM selling investment products indicated to the customer that he had been in the industry for many years and earned a number of professional titles related to investments (10%).

Exercise 6: Suggested Answers:

Appropriate matching between persuasive techniques and definitions and examples was shown as follows:

Scenarios	
a.	An RM seeing a customer is sad about so many airplane accidents lately is preaching to the customer to buy travel insurance (10%). **(connect emotionally)**
b.	An RM understands a customer cannot afford a huge lump sum premium for an insurance policy so he thoughtfully devised a monthly payment plan for the customer. The customer mentioned that photocopying an insurance policy just purchased from the bank from outside shops is very expensive and the RM immediately copied the policy for the customer (10%). **(liking and reciprocation)**
c.	An RM selling e-banking to a customer explained that the bank's e-banking system could follow him wherever he went. (10%). **(Compelling language and evidences)**
d.	A customer asked an RM about many technical terms related to investing in an Indian equity funds concentrating on technology stocks. The RM exhibited high professional knowledge in answering these questions. (10%). (**credibility**)
e.	An RM is selling a customer a property protection insurance - the customer previously drew down a mortgage loan. (10%). (**commitment and consistency**)
f.	An RM after giving red pockets carrying his bank's logo to a customer during the Chinese New Year is probing if the customer is interested to open a children savings account for his/her kids. (10%). (**reciprocation**)
g.	An RM selling a personal loan to a customer is emphasizing that many of his customers are taking out personal loans to pursue investment opportunities in a low interest rate environment. (10%). **(social proof)**
h.	An RM in a casual chat with a customer finds out that that their sons are studying at the same school and have much in common. With a common bond established between them, the RM grasped the opportunity to request the customer to open an account in his bank so that he can personally look after his account. (10%). **(frame for the common ground)**
i.	In a red-hot bull market, an RM advised a customer that his bank was currently promoting equity trading accounts with zero commission for three months. The promotion would only last for one month (10%). **(scarcity)**
j.	An RM selling investment products indicated to the customer that he had been in the industry for many years and earned a number of professional titles related to investments (10%). **(authority and credibility)**

Exercise 6: Assessment Rubric

(a) The total score for this exercise is 100%.

(b) The assessment rubric for this exercise is as follows:

1. Distinction: 80% to 100%
2. Pass: 65% to 79%
3. Marginal Fail: 40% to 64%
4. Fail: <40%

Exercise 7: Exercise on persuasion techniques

Objective: assist RM to determine the appropriateness of persuasion techniques.

Required: Evaluate the appropriateness of the RM's responses in the following scenarios and write down the rationales behind.

Scenarios		**Appropriateness/ inappropriateness**
a.	An RM is introducing a RMB deposit account to a customer based on its higher interest rate. The customer raised the possibility of RMB devaluation in the future. Drawing on the track record of RMB appreciating over the past ten years, the RM confidently told the customer that RMB depreciation was highly unlikely. The customer regarded himself as an expert on the Chinese economy then argued back that the Chinese economy was obviously slowing down. The RM then advised that the slowdown was only a blip and in long run the economy was still good. The whole conversation carried on strongly into back and forth arguments about whether the Chinese economy was really slowing down. (25%)	
b.	A customer in his mid-30s was interested in buying an education saving plan for his 8-year old son. Then an RM prepared a proposal and explained how the proposal could help him to accumulate wealth adequate for his son's university expenses. Since the premium was quite high against the current income of the customer, the RM advised the customer that this was an important decision and urged him to think carefully. Out of courtesy, the customer said he felt sorry to keep bothering the RM. The RM emphasized that he could work out a proposal with the customer that would suit his needs no matter how long it took. The RM then scheduled another meeting with the customer to discuss the proposal further. (25%)	
c.	An RM was selling a personal loan. One key feature of the personal loan was that there was no interest charged except for a handling fee. Right from the beginning, the RM stated the position at the outset that this personal loan had a zero interest cost. He then went on to forcefully close the deal even though the customer expressed the concern that the handling fee was simply an interest charge in disguise. The RM ignored the concerns of the customer and went on to talk about the other benefits of this personal loan. (25%)	
d.	An RM was presenting an investment fund. All along, the customer expressed keen interest especially about the potential high yield of the fund. However, the subscription fee was quite high at 2% and in the low yield environment at the time, a 2% subscription fee would eat into the return of the fund. The customer therefore requested the RM to reduce the subscription fee. Knowing that the Bank would still make money when the subscription fee was above 1%, the RM was willing to reduce the subscription fee to 1.5% in order to entice the customer to buy the fund. (25%)	

Exercise 7: Suggested Answers:

Scenarios		Appropriateness/inappropriateness
a.	An RM is introducing a RMB deposit account to a customer based on its higher interest rate. The customer raised the possibility of RMB devaluation in the future. Drawing on the track record of RMB appreciating over the past ten years, the RM confidently told the customer that RMB depreciation was highly unlikely. The customer regarded himself as an expert on the Chinese economy then argued back that the Chinese economy was obviously slowing down. The RM then advised that the slowdown was only a blip and in long run the economy was still good. The whole conversation carried on strongly into back and forth arguments about whether the Chinese economy was really slowing down. (25%)	The RM's response was inappropriate because the whole scenario should not have become a debate about whether the Chinese economy was actually slowing down. (25%)
b.	A customer in his mid-30s was interested in buying an education saving plan for his 8-year old son. Then an RM prepared a proposal and explained how the proposal could help him to accumulate wealth adequate for his son's university expenses. Since the premium was quite high against the current income of the customer, the RM advised the customer that this was an important decision and urged him to think carefully. Out of courtesy, the customer said he felt sorry to keep bothering the RM. The RM emphasized that he could work out a proposal with the customer that would suit his needs no matter how long it took. The RM then scheduled another meeting with the customer to discuss the proposal further. (25%)	The RM's response to the customer was appropriate because he did not push the customer to buy. Instead, he gave time for the customer to think it over and advised that purchasing long term insurance with saving features was a long-term commitment and he needed to consider carefully. The RM also took the opportunity to schedule a second meeting with the customer. (25%)
c.	An RM was selling a personal loan. One key feature of the personal loan was that there was no interest charged except for a handling fee. Right from the beginning, the RM stated the position at the outset that this personal loan had a zero interest cost. He then went on to forcefully close the deal even though the customer expressed the concern that the handling fee was simply an interest charge in disguise. The RM ignored the concerns of the customer and went on to talk about the other benefits of this personal loan. (25%)	The RM's response was inappropriate because he ignored the concern raised by the customer that the handling fee was interest in disguise. He should have advised that if the customer saw the handling fee as interest, what would have been the actual interest rate charged to the customer - based on the handling fee. Honesty about the features would have been the best way to present the product. (25%)
d.	An RM was presenting an investment fund. All along, the customer expressed keen interest especially about the potential high yield of the fund. However, the subscription fee was quite high at 2% and in the low yield environment at the time, a 2% subscription fee would eat into the return of the fund. The customer therefore requested the RM to reduce the subscription fee. Knowing that the Bank would still make money when the subscription fee was above 1%, the RM was willing to reduce the subscription fee to 1.5% in order to entice the customer to buy the fund. (25%)	This is not a clear-cut situation. If the RM wanted to close the deal, the reduced subscription fee at 1.5% was still profitable for the bank. The RM could accept the reduced subscription fee. However, the RM should consult internal bank guidelines beforehand. (25%)

Exercise 7: Assessment Rubric

(a) The total score for this exercise is 100%.
(b) The assessment rubric for this exercise is as follows:
1. Distinction: 80% to 100%
2. Pass: 65% to 79%
3. Marginal Fail: 40% to 64%
4. Fail: <40%

Exercise 8: Exercise on handling objections

Objective: the exercise is for RM to understand different types of objections and handling methods.

Required: Identify & match the types of objection and handling methods to the scenarios.

Types of objections and handling methods
1. Product Objection/handling method is to clarify concerns about the product.
2. Source Objection/handling method is to clarify concerns about the source.
3. Price Objection reflects a concern on the price of the product. One handling method is to explain the true value of the product that necessarily warrants a higher price
4. Price Objection reflects a concern on the budget constraint of the customer. One handling method is to devise a method to ease the budget constraint.
5. Need Objection/handling method is to show customer that the need can be better satisfied by another product.
6. "I have to think about it" Objection/handling method is to draw out the real reason behind the objection and handle the reason accordingly.

Scenarios	
a.	An RM was promoting medical insurance to a middle-aged customer. Since the customer was middle-aged, he knew that the insurance would be useful for him. However, he also knew that the premium was expensive and it was financially difficult for him to pay for such a huge lump sum immediately. The customer raised an objection based on the premium of the medical insurance policy being too expensive. The RM sensing affordability was the real motive behind the objection then offered a monthly payment plan to ease the payment burden. (17%)
b.	An RM was introducing a life insurance policy to a customer. Since the life insurance company was not a household name, the customer expressed concerns about the financial strength of the insurance company. The RM immediately showed the annual reports for the company and pointed out that it carried an AAA credit rating from a renowned credit rating agency. (17%)
c.	An RM was selling e-banking to a customer who was not computer literate. The customer refused to use e-banking because he believed that he was unlikely to learn how to use e-banking. The RM believed that the objection was based on prejudice and demonstrated the ease of using e-banking to the customer**.** (17%)
d.	An RM was selling e-banking services. But the customer thought that visiting the branch near his office would satisfy his banking needs. The RM then explained that banking hours were limited and banks were closed on Saturday afternoons and Sundays. Also, the trend was that more banking services would be handled through on-line banking in the future**.** (17%)
e.	An RM was selling a personal loan to a customer by utilizing the unused balance of the customer's credit card. The customer was interested, but said - "I have to think about it". After discussing the matter, the customer advised that he was interested in the loan, but afraid that the loan might affect his mortgage application next year. So the RM devised a plan to make the repayment period within 12 months - so that this loan would be cleared by the time he applied the mortgage. (16%)
f.	An RM was presenting medical insurance to a middle-aged customer who had a number of prior medical treatments. After comparing similar products in the market, the customer objected because the premium was about 10% higher than those of similar products. The RM pointed out one feature of this medical insurance was that the premium would not increase on the policy due to the prior claims - the other policies did not have such a protection clause. (16%)

Exercise 8: Suggested Answer

Types of objections and handling methods
1. Product Objection/handling method is to clarify concerns about the product.
2. Source Objection/handling method is to clarify concerns about the source.
3. Price Objection reflects a concern on the price of the product. One handling method is to explain the true value of the product that necessarily warrants a higher price
4. Price Objection reflects a concern on the budget constraint of the customer. One handling method is to devise a method to ease the budget constraint.
5. Need Objection/handling method is to show customer that the need can be better satisfied by another product.
6. "I have to think about it" Objection/handling method is to draw out the real reason behind the objection and handle the reason accordingly.

Scenarios	
a.	An RM was promoting medical insurance to a middle-aged customer. Since the customer was middle-aged, he knew that the insurance would be useful for him. However, he also knew that the premium was expensive and it was financially difficult for him to pay for such a huge lump sum immediately. The customer raised an objection based on the premium of the medical insurance policy being too expensive. The RM sensing affordability was the real motive behind the objection then offered a monthly payment plan to ease the payment burden. (17%) – **(4)**
b.	An RM was introducing a life insurance policy to a customer. Since the life insurance company was not a household name, the customer expressed concerns about the financial strength of the insurance company. The RM immediately showed the annual reports for the company and pointed out that it carried an AAA credit rating from a renowned credit rating agency. (17%) – **(2)**
c.	An RM was selling e-banking to a customer who was not computer literate. The customer refused to use e-banking because he believed that he was unlikely to learn how to use e-banking. The RM believed that the objection was based on prejudice and demonstrated the ease of using e-banking to the customer**.** (17%) – **(1)**
d.	An RM was selling e-banking services. But the customer thought that visiting the branch near his office would satisfy his banking needs. The RM then explained that banking hours were limited and banks were closed on Saturday afternoons and Sundays. Also, the trend was that more banking services would be handled through on-line banking in the future**.** (17%) – **(5)**
e.	An RM was selling a personal loan to a customer by utilizing the unused balance of the customer's credit card. The customer was interested, but said - "I have to think about it". After discussing the matter, the customer advised that he was interested in the loan, but afraid that the loan might affect his mortgage application next year. So the RM devised a plan to make the repayment period within 12 months - so that this loan would be cleared by the time he applied the mortgage. (16%) – **(6)**
f.	An RM was presenting medical insurance to a middle-aged customer who had a number of prior medical treatments. After comparing similar products in the market, the customer objected because the premium was about 10% higher than those of similar products. The RM pointed out one feature of this medical insurance was that the premium would not increase on the policy due to the prior claims - the other policies did not have such a protection clause. (16%) – **(3)**

Exercise 8: Assessment Rubric

(a) The total score for this exercise is 100%.

(b) The assessment rubric for this exercise is as follows:

1. Distinction: 80% to 100%
2. Pass: 65% to 79%
3. Marginal Fail: 40% to 64%
4. Fail: <40%

Exercise 9: Handling objections

Objective: assist RM to determine the appropriateness of handling objections.

Required: evaluate the appropriateness of the following scenarios and write down the reason for their appropriateness or inappropriateness.

Scenarios	**Appropriateness/ inappropriateness**
a. A customer was unfamiliar with HIBOR-based mortgage loans and objected that he might need to pay a higher interest rate on such a loan as he thought HIBOR fluctuated widely. Seeing from the recent trend that interest rates on HIBOR based mortgage loans were much lower than those on a Prime based mortgage loan, the RM then said, "You are factually incorrect". (25%)	
b. An RM had a habit that each time a customer raised an objection, he would use cushion statements such as "From your perspective, you are quite right" and then start to diffuse the objection. (25%)	
c. An RM was persuading a customer to buy a USD certificate of deposit. The RM stressed that since the USD and HKD were pegged, there was no exchange rate risk. The customer advised the RM that he could be wrong because the HKD might unpeg and then re-peg with the RMB. The RM then lost his temper and advised that he had worked in the banking industry for many years and he had a master's degree in Finance from a reputable university. (25%)	
d. An RM from a US bank was selling life insurance. The customer objected, as he preferred to buy insurance from the website of insurance companies. He thought he could then avoid paying a large portion of the premium, which was actually the sales commission for the salesperson and so he could get a lower premium overall. The customer then went on to talk about the greediness of US financial institutions causing the 2008 financial crisis. In order to please the customer, the RM sided with the customer and then also attacked the greediness of US financial institutions. (25%)	

Exercise 9: Suggested Answers:

Evaluate the appropriateness of the following scenarios and write down the reason for their appropriateness or inappropriateness.

Scenarios	Appropriateness/inappropriateness
a. A customer unfamiliar with HIBOR-based mortgage loans and objected that he might need to pay a higher interest rate on such a loan as he thought HIBOR fluctuated widely. Seeing from the recent trend that interest rates on HIBOR based mortgage loans were much lower than those on a Prime based mortgage loan, the RM then said, "You are factually incorrect".	The response from the RM was inappropriate because he should not tell the customer that he was factually incorrect. He should have explained patiently that HIBOR had in the past few years been quite low. However, he should have also disclosed to the customer that HIBOR could increase in the future. (25%)
b. An RM had a habit that each time a customer raised an objection, he would use cushion statements such as "From your perspective, you are quite right" and then start to diffuse the objection.	The response from the RM was appropriate because he used a cushion to soften the objection from the customer. (25%)
c. An RM was presenting a USD certificate of deposit. The RM stressed that since the USD and HKD were pegged, there was no exchange rate risk. The customer advised the RM that he could be wrong because the HKD might unpeg and then re-peg with the RMB. The RM then lost his temper and advised that he had worked in the banking industry for many years and had a master's degree in Finance from a reputable university.	The response from the RM was inappropriate because the objective was not to win the debate but to win the heart of the customer. In addition, taking into account the convertibility zone between 7.75 and 7.85 and the general spread of bank's USD/HKD buy/sell offer rates, there may still be some exchange differences or transaction costs arising from a USD/HKD purchase or sale transaction. (25%)
d. An RM from a US bank was selling a life insurance. The customer objected, as he preferred to buy insurance from the website of those insurance companies. He thought he could then avoid paying a large portion of the premium, which was actually the sales commission for the salesperson and so he could get a lower premium overall. The customer then went on to talk about the greediness of US financial institutions causing the 2008 financial crisis. In order to please the customer, the RM sided with the customer and then also attacked the greediness of US financial institutions.	The response from the RM was inappropriate as he had no need to side with the customer on this type of issue especially he was working at a US bank. This could undermine the RM's credibility. Even if the premiums to be paid were similar to buying the policy through a distributor, the RM should have explained this situation to the customer to clarify the source of objection. (25%)

Exercise 9: Assessment Rubric

(a) The total score for this exercise is 100%.

(b) The assessment rubric for this exercise is as follows:

1. Distinction: 80% to 100%
2. Pass: 65% to 79%
3. Marginal Fail: 40% to 64%
4. Fail: <40%

Exercise 10: Exercise on buying signals

Objective: to understand different buying signals and the appropriate verbal and non-verbal clues.

Required: match the buying signals to their appropriate verbal and non-verbal clues.

Buying Signals
Red Signal
Yellow Signal
Green Signal

Verbal and Non-verbal clues	
a.	A customer is asking the RM many questions about the products. (11%)
b.	During the RM's presentation, a customer frowned and started to talk about something else not related to the product. (11%)
c.	After listening to the RM's presentation on an insurance policy, the customer advised that he was unsure which currency option would be better out of the two options embedded in the policy. (11%)
d.	During the RM's presentation, the customer nodded his head and then after the presentation, he asked about the price of the product. (11%)
e.	After the RM's presentation, the customer picked up a pen seemingly wanting to sign something. (11%)
f.	After the RM's presentation, the customer avoided eye contact and started talking about something else not related to the product. (11%)
g.	During a presentation by the RM, the customer did not ask many questions, but chose to continue the conversation with the RM. (11%)
h.	After listening to the RM's presentation, the customer then asked how long it would take to complete the formality of buying the product. (11%)
i.	After listening to the RM's presentation on a promotional offer about deposits, the customer asked about the deadline for the promotional campaign. (12%)

Exercise 10: Suggested Answers:

Verbal and Non-verbal clues
a) A customer is asking the RM many questions about the products. **(yellow buying signal)**
b) During the RM's presentation, a customer frowned and started to talk about something else not related to the product. **(red buying signal)**
c) After listening to the RM's presentation on an insurance policy, the customer advised that he was unsure which currency option would be better out of the two options embedded in the policy. **(Green buying signal)**
d) During the RM's presentation, the customer nodded his head and then after the presentation, he asked about the price of the product. **(Yellow buying signal)**
e) After the RM's presentation, the customer picked up a pen seemingly wanting to sign something. **(Green buying signal)**
f) After the RM's presentation, the customer avoided eye contact and started talking about something else not related to the product. **(Red buying signal).**
g) During a presentation by the RM, the customer did not ask many questions, but chose to continue the conversation with the RM. **(Yellow buying signal)**
h) After listening to the RM's presentation, the customer then asked how long it would take to complete the formality of buying the product. **(Green buying signal)**
i) After listening to the RM's presentation on a promotional offer about deposits, the customer asked about when the deadline for the promotional campaign. **(Green buying signal)**

Exercise 10: Assessment Rubric

(a) The total score for this exercise is 100%.

(b) The assessment rubric for this exercise is as follows:

1. Distinction: 80% to 100%
2. Pass: 65% to 79%
3. Marginal Fail: 40% to 64%
4. Fail: <40%

Step 6: Closing the deal

6.1 Intended Learning Outcomes

On completion of this step, learners should be able to:

- Understand different ways to close a deal.

6.2. Ways to close

After sensing a buying signal, an RM has eight main ways to close a deal. These are:

(1) **Direct/Indirect close**
(2) **Balance sheet close**
(3) **Puppy dog close**
(4) **Assumptive close**
(5) **Appeal to emotions**
(6) **Hot button close**
(7) **Negative assumptions**
(8) **Draw on reciprocity**

(1) **Direct/Indirect Close**: used when you are fairly certain the customer is planning to buy.

Direct close - uses direct statements to conclude a deal. Examples of direct close statements are "May I print this personal loan agreement for you to sign?" or "Should I forward this insurance contract to you for execution so that you can get covered right away?"

Indirect close - use statements to indirectly move the closing one step closer to success. Examples of indirect close statements are "How do these mortgage terms look to you?" or "Is this personal loan interest rate and tenor agreeable with you?" If the customer responds positively to these questions, the RM can proceed to close the deal such as handing over the necessary documents to the customer to sign.

There are two key points at this stage. First, it is important to sign the necessary documents immediately to seal the deal. It would be disadvantageous to the RM to postpone the execution of the deal to another day, as there are many contingencies that could happen during this intervening period. Second, if the customer agrees to buy, the RM should keep a smiling face as a common courtesy. However, the RM should be careful with his emotion and avoid looking over-keen and avoid further unnecessary sales pitch. Looking too pleased or over excited after the customer signs might signify to the customer that they have been manipulated by the RM. This can cause the customer to regret their decision and perhaps rescind the contract during the cooling-off period.

(2) **Balance sheet close**: each product or service has pros and cons – just like a balance sheet. The customer is obviously interested, but ambivalent. The appropriate persuasion technique is to appeal to the rational side of the customer. The RM can make a list of pros and cons with the customer. Of course, the RM needs to know in advance that the pros outnumber and outweigh the cons. The objective is to convince the customer that he or she is making a rational decision. For example, a customer might be interested in buying insurance, but the hurdle is the expensive premium. So the RM can outline the benefits of carrying an insurance policy such as the high compensation the customer needs to pay if the insured event occurs - and this amount might be too high for most people to bear. In other words, the pros greatly outweigh the cons. Social Proof as a persuasion technique can also be used here as the RM can add that a lot of customers are also concerned about the insurance premium. However, after weighing the consequences of not purchasing, they opted for taking out the insurance. After the customer buys the products, the RM can use some positive statements to reinforce the customer that he or she is making a rational choice such as "glad to see you purchased appropriate insurance for your family".

(3) **Puppy dog close**: just like the pet shop owner who lets a doubtful customer take a puppy home with the option of returning it if the customer is unhappy. The customer takes the puppy home, plays with them, and the sale is effectively clinched - not by the RM, but by the puppy. So if the RM is very confident that his or her products have sufficient appeal and the customer will find it hard to give up once it's been used and enjoyed, this can be an effective closing technique. For example, when a customer's deposit exceeds a certain threshold, based on the bank's customer segmentation framework, it is eligible to be promoted to a different class of customer such as affluent class. However, the customer hesitates to be promoted. The RM might be quite sure that after the customer enjoys the privileges of this segment, it would be difficult for him/her to go back. He can close by suggesting that he tries the promotion first. If he is not happy with staying in the affluent class, he can cancel it later without penalty.

(4) **Assumptive close:** the RM knowingly assumes that the customer has already agreed to purchase the item and begins to wrap up the sale. For example, a teller might be handling a query about a credit card. They might say, "There are many benefits of this credit card and I promise you that you will not leave home without it. Now would you like me to send the card to your residential address or would you like to collect it from the branch?" Notice how the teller assumes that the sale is closed and did not give the customer a chance to object.

However, the RM needs to ensure customers fully understand the products or services they purchase and their relevant details. This is because banking products involve many parameters such as interest rates, exchange rates etc. In addition, the RM needs to comply with internal sales guidelines and external regulatory requirements.

(5) **Appeal to emotions**: learn to massage the emotions of your potential customers without making them feeling manipulated. Then, an RM will be in a better position to close a deal.

There are many ways to massage emotions to close a deal. One is the "possibility of loss" close. This is where an RM tries to close a sale by noting that the product is going to run out or that it won't be available at such a price for much longer. For example, an RM can close a deal on a deposit by mentioning that the promotion period for such a high interest rate ends this week. After this, the high interest rate will not be offered. This appeals to the customer's sense of regret and encourages them to act now. This is the same as using scarcity as a persuasion technique. To comply with internal guidelines and external regulatory requirements, the RM must ensure the deadline is genuine.

The second one is cradle to grave close. For example, some younger customers may hesitate to buy insurance because it is simply too early for them. The RM can close a deal by also appealing to their customer's regret through statements such as it is never too early to make a major life purchase.

(6) **Hot button close**: After interacting with the customer, the RM should have some ideas on which factors might be a deal breaker for a close. This factor is called the hot button. For example, an RM is selling an equity trading account to a customer and in the selling process, he finds that the customer puts a strong emphasis on the reputation or prestige of the bank. The customer is actually not that concerned about the trading commission. Therefore, the RM emphasizes the bank's profile, their international ranking in the banking community and the prestige of having a trading account with this bank.

(7) **Negative assumptions.** When a customer hesitates, the RM can repeat questions like "Is there anything about the product you are still unsure of?" or "Is there any reason you wouldn't want to decide now?" If the customer raises his or her concerns, the RM can deal with them.

So the RM continues to ask negative assumptive questions until they agree on the sale. For example, when selling an insurance policy, a customer hesitated and the RM asked the customer what was holding him back. The customer replied that payment was substantial in one lump sum. The RM then worked out a monthly payment plan to spread the payment burden. If the customer continued to hesitate, the RM could repeat similar negative assumptive questions so that the customer finally has no reason to object.

The aim is not to let the customer feel coerced, but positioned as the RM trying to help customers to address their information needs or tackle hurdles faced by the customer and so reach a deal. When addressing hurdles, authority as a persuasion technique can also be used. To continue with the insurance example, the customer may have concerns on the standing of the underwriter because it is not a household name. By referring to statistics such as the underwriter holding an AAA rating from a reputable rating agency, the concerns of the customer can be addressed through authoritative information.

(8) **Draw on reciprocity**: using reciprocity as a persuasion technique an RM can accumulate goodwill from a customer. Goodwill can be achieved through providing the customer the necessary information and assisting him to solve his banking issues etc. The RM will be in a better position to request the customer to reciprocate. However, the basic requirements that the products should fulfill the financial needs of the customers and align with their risk profile must be met first. The issue is whether the customer chooses this bank or another bank.

Banking is based on having an on-going relationship. So even if RM does not successfully close a deal, he should still aim to move the sale forward by immediately scheduling a second meeting if possible. The main point is to keep the selling process moving and prevent the customer from procrastinating. The longer the RM waits for a second meeting, the less interest the customer will maintain and so the lower the probability of successfully closing the deal. As mentioned before, reducing your enthusiasm might lead the customer to interpret that your previous enthusiasm was simply phony sales pitch. A customer not buying from you this time is still a prospect for the future.

If any positive or adverse situation should impact the customer's portfolio, customers should be alerted. In particular, it would be helpful if a solution is available and then alert the customer before the negative impact occurs. For example, if RM introduces a personal loan with an auto debit option to a customer, he could also alert the customer that he needs to maintain an adequate balance in the account for the auto-debit and so avoid charges for an insufficient balance. The customer might then appreciate that the RM is concerned about his interests.

Guidelines to Trainer for Step 6

Suggested Duration:

2-hour classroom training (plus 0-hour self-paced learning, such as on-the-job training, self-study and report writing etc.)

Step 6 & 7 can be combined into one 3-hour classroom training.

Teaching and Learning Methodology

Learners should be taught through a "participant centered orientation" with a dual emphasis centered on lecture, inquiry-led teaching and learning practice. Trainers should conduct lectures and use examples in the training materials to illustrate the concepts. Learners should be encouraged to draw on their work experience to apply concepts to real-life scenarios.

This step is also soft selling skills like Step 5. Again, trainers should remind learners that those soft selling skills are mainly advocated by famous management skills experts & psychologists, such as Robert Cialdini and Jay Conger and intended for the general selling behavior, not specific for bankers.

Methods of Assessment

ILOs will be assessed through a matching exercise where learners are required to match different ways to close a deal with appropriate scenarios.

Learning Topics at-a-glance

- Ways to close

Summary of activity

- Lecture
- Experience sharing
- In-class activity – group discussion & presentation
- Exercise 11

Methods of Assessment

ILOs will be assessed through a case study. Learners should analyze a case related to risk profiling and provide appropriate responses to the case questions.

Further Reading

Brian Tracy (2016) '*24 techniques for closing the sale*" [online] Available at: <http://24techniquesforclosingthesale.com>

Robert B Cialdini (2006) *Influence: The Psychology of Persuasion*. Revised Edition: New York: Harper and Row

HSBC (2015) "*Selling Techniques*" [online] Available: <https://www.knowledge.hsbc.co.uk>

Jay A Conger "*The Necessary Art of Persuasion*" Harvard Business Review, May-June 1998.

In-class Activity for Step 6: Closing the deal

Information to learners:

Form a group of 4-6 to discuss and then report to the class based upon the following parameters:

(a) Think of a customer you successfully sold him/her retail banking products/services.
(b) Explain how you successfully closed the deal in the selling process.

Instructions to trainer:

In the report to the trainer, learners must be able to demonstrate the following skill competencies to ensure the Intended Learning Outcomes are achieved.

(a) Learners must be able to explain how they closed the deal with the customer. The skill competency here is the ability to close the deal by employing a way that was appropriate for the circumstances.
(b) The assessment rubric for In-class activity is as follows:
    1. Distinction: identification and full elaboration of the skill competency in (a) and additional insightful points
    2. Pass: identification and full elaboration of the skill competency in (a)
    3. Marginal Fail: identification and full elaboration of part of the skill competency in (a)
    4. Fail: identification and full elaboration of none of the skill competency in (a)

Exercise 11: Ways to Close

Objective: to understand ways to close and appropriate examples.

Required: Identify & match the ways to close with the appropriate examples.

Ways to close
Direct/Indirect Close
Balance Sheet Close
Puppy Dog Close
Assumptive Close
Appeal to Emotion
Hot Button Close
Negative Assumptions
Reciprocity

Scenarios	
a.	The RM had a good relationship with a customer and had helped him on many previous occasions. The RM then subtly requested the customer to take his mortgage loan with his bank, even though the pricing of his Bank was not the lowest in the market. (12.5%)
b.	After finishing a sales presentation with a customer and knowing the customer was interested, the RM asked whether the customer would deposit HK$100,000 or HK$200,000 for his new account. (12.5%)
c.	A customer expressed doubt about whether he should accept upgrading from an ordinary account to a VIP account. His RM then suggested that he should try it out first. If he didn't like it, he could always cancel it later with no strings attached. (12.5%)
d.	A customer seemed to hesitate in purchasing an insurance policy after an RM made a presentation. The RM then kept on asking the customer what was holding him back until the customer finally agreed to buy. (12.5%)
e.	A bank is launching an equity account opening campaign and offering concessionary commission on trading equities. After meeting a prospect, the RM found that the customer repeatedly claimed that he was designated as a VIP customer by other financial institutions. He also put strong emphasis on the fact that he opened equity trading accounts with the world's most renowned banks. Instead of emphasizing the concessionary commission, the RM changed to emphasize the high international ranking of his bank in the banking community. The objective was to appeal to the desire of the customer to associate with a world renowned bank. (12.5%)
f.	With recent publicity about air flight disasters happening, an RM successfully persuaded a customer expressing sadness about these disasters to buy travel insurance. (12.5%)
g.	After the RM made a presentation to a customer about an equity fund, the customer expressed that he was not certain about investing through a fund or by himself through a self-managed equity account. The RM then explained both the pros and cons of each method and concluded that buying the fund was more appropriate because the customer was a busy executive and did not have time to manage his own investments. (12.5%)
h.	After listening to an RM's presentation about a personal loan, a customer leaned forward to the RM and asked about the interest rate and other terms. After advising the interest rate to the customer, the RM then handed over a personal loan contract for the customer to sign. (12.5%)

Exercise 11: Suggested Answers:

Scenarios
a. The RM had a good relationship with a customer and had helped him on many previous occasions. The RM then subtly requested the customer to take his mortgage loan with his bank, even though the pricing of his Bank was not the lowest in the market. (**Reciprocity**) (12.5%).
b. After finishing a sales presentation with a customer and knowing the customer was interested, the RM asked whether the customer would deposit HK$100,000 or HK$200,000 for his new account. (**Assumptive Close**) (12.5%).
c. A customer expressed doubt about whether he should accept upgrading from an ordinary account to a VIP account. His RM then suggested that he should try it out first. If he didn't like it, he could always cancel it later with no strings attached. (**Puppy Dog close**) (12.5%).
d. A customer seemed to hesitate in purchasing an insurance policy after an RM made a presentation. The RM then kept on asking the customer what was holding him back until the customer finally agreed to buy. (**Negative assumption**) (12.5%).
e. A bank is launching an equity account opening campaign and offering concessionary commission on trading equities. After meeting a prospect, the RM found that the customer repeatedly claimed that he was designated as VIP customer by other financial institutions. He also put strong emphasis on the fact that he opened equity trading accounts with the world's most renowned banks. Instead of emphasizing the concessionary commission, the RM changed to emphasize the high international ranking of his bank in the banking community. The objective was to appeal to the desire of the customer to associate with a world renowned bank. (**Hot button close**) (12.5%).
f. With recent publicity about air flight disasters happening, an RM successfully persuaded a customer expressing sadness about these disasters to buy travel insurance. (**Appeal to emotion**) (12.5%).
g. After the RM made a presentation to a customer about an equity fund, the customer expressed that he was not certain about investing through a fund or by himself through a self-managed equity account. The RM then explained both the pros and cons of each method and concluded that buying the fund was more appropriate because the customer was a busy executive and did not have time to manage his own investments. (**Balance sheet clo**se) (12.5%).
h. After listening to an RM's presentation about a personal loan, a customer leaned forward to the RM and asked about the interest rate and other terms. After advising the interest rate to the customer, the RM then handed over a personal loan contract for the customer to sign. (**Direct close**) (12.5%).

Exercise 11: Assessment Rubric

(a) The total score for this exercise is 100%.

(b) The assessment rubric for this exercise is as follows:

1. Distinction: 80% to 100%
2. Pass: 65% to 79%
3. Marginal Fail: 40% to 64%
4. Fail: <40%

Step 7: Account Monitoring

7.1 Intended Learning Outcomes

On completion of this step, learners should be able to:

(1) Understand day-to-day, periodic and pro-active monitoring of customers' accounts.

7.2 Day-to-day servicing, periodic review and pro-active monitoring

The sales process does not end with the selling of products and services to the customers. It brings out the account monitoring phase of the selling process.

(1) The RM should ensure that the database holding customers' information stays up-to-date especially regarding major changes in customers' individual circumstances, such as moving to a different life stage or changing to a new career. The objective is to ensure that the information system within banks accurately reflects the current situations of customers. Accurate information allows the RM to easily monitor customers' activities and identify suitable products and services that can cater to their changing financial needs.

(2) It is the duty of the RM to provide day-to-day service to existing customers to ensure smooth customer account operation and satisfactory after sales services. Day-to-day servicing mainly helps with the operational needs of customers and is an integral part of account monitoring.

(3) Procedures are needed to monitor customers' transactions. If a transaction does not fit within a customer's transaction profile, the RM should review the customer's account in detail. The review serves two purposes. First, RMs can use the specific transaction information to determine whether there have been any changes in the personal circumstances of the customer and the RM can then determine if the needs of the customers have also changed. For example, if a customer opens his own business, he may have a higher need for credit. This can provide the RM with opportunities to sell some appropriate credit products. Second, unusual transactions could give lead to regulatory issues such as money laundering. If warranted, an RM should then alert the bank's compliance section.

(4) The RM should also conduct periodic reviews, taking into account of the Bank's internal policy to update customer's information stored in the bank's database and also engage in pro-active monitoring by understanding customers' changing financial needs. Therefore, when RMs conduct periodic reviews, they can equip themselves with helpful information and can use this during future meetings and sales purposes. If situation warrants such as there seems to be a material change in the financial needs of customer, RM should re-commence from Step 1 Fact Finding and could go all the way to Step 7 Accounting Monitoring.

Guidelines to Trainer for Step 7

Suggested Duration:

1-hour classroom training (plus 12-hour self-paced learning, such as on-the-job training, self-study and report writing etc.)

Step 6 & 7 can be combined into one 3-hour classroom training.

Teaching and Learning Methodology

Learners should be taught through a "participant centered orientation" with a dual emphasis centered on lecture, inquiry-led teaching and learning practice. Trainers should conduct lectures and use examples in the training materials to illustrate the concepts. Learners should be encouraged to draw on their work experience to apply concepts to real-life scenarios.

Methods of Assessment

ILOs will be assessed through one comprehensive case study where account monitoring knowhow is embedded and learners are required to provide appropriate responses to the case questions.

Learning Topics at-a-glance

- Day-to-day servicing, periodic Review and pro-active monitoring

Summary of activity

- Lecture (suggested to keep it not more than 30% of the classroom training hours)
- In-class activity – group discussion & presentation
- Exercise 12 & 13 (These 2 exercises are intended for learners who have completed the whole training, not just for Step 7. As a result of the complexity of the exercise, more self-study time is allowed for learners to complete the exercises in their own time.)

Methods of Assessment

ILOs will be assessed through a case study. Learners should analyze a case related to risk profiling and provide appropriate responses to the case questions.

Further Readings

Genesys (2008) Customer Service Strategies for the Retail Banking Industry

Mark Schoeff Jr. (2013) ‘*Finra seeks new monitoring system for customer accounts*” [online] Available at: < http://investmentnews.com>

The Hong Kong Association of Banks (2015) *Code of Banking Practice*, Hong Kong

In-class Activity for Step 7: Account monitoring

Information to learners:

Form a group of 4-6 persons to discuss and then report to the class based upon the following parameters:

(a) Think of a customer you successfully sold him/her retail banking products/services and now he/she has became an important customer in your portfolio.
(b) Explain how you monitor his/her account on a day-to-day and periodic basis. In particular, you should describe how you engage in pro-active monitoring so that you can anticipate his/her changing financial needs and fulfill the bank’s internal guidelines and regulatory requirements.

Instructions to trainer:

In the report to the trainer, learners must be able to demonstrate the following skill competencies to ensure the Intended Learning Outcomes are achieved.

(a) Learners must be able to explain how they monitor a customer’s account on a day-to-day and periodic basis. The skill competency here is the ability to pro-actively monitor the customer’s account on a day-to-day and periodic basis so that the learners can anticipate the customer’s changing financial needs and fulfill constantly changing internal bank guidelines and external regulatory requirements.
(b) The assessment rubric for In-class activity is as follows:
    1. Distinction: identification and full elaboration of the skill competency in (a) and additional insightful points
    2. Pass: identification and full elaboration of the skill competency in (a)
    3. Marginal Fail: identification and full elaboration of part of the skill competency in (a)
    4. Fail: identification and full elaboration of none of the skill competency in (a)

Exercise 12: Report Writing

Objective:

The objective of this exercise is to draw on the RMs experience to construct a real case going through each step of the selling process.

Required:

(1) Drawing on past customer handling experiences, construct a real case going through all the seven steps of the selling process i.e. Fact finding, Risk appetite analysis, Product-need matching, Product presentation, Buying signals, Closing the deal and Account monitoring.

(2) The case should be a successful one where the RM successfully sold retail banking products to a customer.

(3) The RM should use each step of the selling process to describe how he/she initially finds information about the customer, performs risk profiling, understands the customer's genuine needs, recommends products matching his needs and risk profiles, exploits cross selling opportunities, if any, present products to the customer according to regulatory and bank guidelines, detects buying signals, handles objections, builds trust, closes the deal and monitors the account continuously and pro-actively.

(4) In real world scenarios, not every component outlined in the 7-step selling process will be touched. For example, if the customer has not raised objections, the part on handling objections can be omitted.

(5) At the end of the case, the RM should write up a summary of the key factors contributing to the success of the case.

Exercise 12: Assessment Rubric

- For this case study, learners should be able to spell out the following key components:
  - (a) How the learner used all or part of the seven steps of the selling process i.e. Fact finding, Risk appetite analysis, Product-need matching, Product presentation, Buying signals, Closing the deal and Account monitoring to successfully prospect a customer.
  - (b) A write-up summarizing the key factors contributing to the success of the case.
  - (c) The assessment rubric for this case study is as follows:
    1. Distinction: identification and full elaboration of the key components in (a) and (b) and additional insightful points
    2. Pass: identification and full elaboration of the key components in (a) and (b)
    3. Marginal Fail: identification and full elaboration of part of the key components in (a) and (b)
    4. Fail: identification and full elaboration of none of the key components in (a) and (b)

Exercise 13: Comprehensive Case Study

Case Requirement:

Based on the information provided in the case, the RM needs to apply the appropriate steps of the selling process to form a sales strategy for the customer. This will need to be consistent with the genuine needs and risk profile of the customer, internal guidelines of the bank and the external requirements of the regulatory authority.

Case background:

At the end of 2015, Stanley Lo had maintained a current account with Bank A for over 10 years. Lo had opened this account because it was close to his workplace. While the account was quite active with lots of transactions in the initial year of opening, the activity was reduced and the account became dormant. At the end of 2015, Bank A's management decided to clean up dormant accounts and requested the RM to find any potential customers to turn their dormant accounts into profitable accounts. An RM called Jenny was assigned to review the account and she found that there was a great deal of potential to sell different banking products and service. Lo had declared himself to be a lecturer earning about HK$70,000 per month and had a net worth of about HK$1 million. Jenny visited Lo to explore selling opportunities.

Customer's information:

Jenny interviewed Lo and had the following information on hand:

Age and marital status:	Aged 49, married with one daughter. His wife worked as a human resources manager at a shipping company. His daughter, aged 18, has just left for Canada to further her education.
Occupation:	Lo recently earned his doctorate and was a professor at a local university. He currently earned HK$100,000 per month versus HK$70,000 declared a few years ago. His wife earned HK$50,000 per month.
Net worth:	Lo was still paying a mortgage on his home and the outstanding loan was about HK$2 million. The property was worth about HK$6 million. Lo also maintained a fixed deposit of about HK$2 million at another bank, Bank B.
Risk profile:	After completing the questionnaires, Lo was classified as a low to medium risk type customer.

Customer's individual circumstances and financial needs:

Lo explained that he moved all his banking operations to Bank B because Bank B provided more focused services. Bank B classified Lo as a premium customer with minimum AUM (Assets Under Management) of HK$1 million and there was a designated RM looking after his account. Whenever he had banking needs, he simply referred to his RM, who immediately helped him take care of his banking needs. With only a dormant account, he thought that the staff at Bank A were not interested in serving him. However, during the conversation, Jenny observed that Lo had a logical mind. Being a natural sciences professor, Lo was sensitive to data and statistics. Sometimes, he asked Jenny to back up her claims by providing evidence. Jenny also found that Lo's hobby was to take his family on overseas trips.

While Lo was generally satisfied with services at Bank B, he explained that as he did not want to rely on one bank, he planned to diversify his banking relationship. Besides this, he found that his current bank, Bank B was increasingly not able to satisfy his banking needs.

(1) Lo advised that he was moderately risk averse and was not satisfied with the meager interest from his deposit. He advised that he was willing to accept a higher risk for a higher return. However, the RM of Bank B advised Lo that if he were risk averse, the only product that suited him was a fixed deposit.

(2) Besides this, Lo would be 50 in 2016 and he needed to plan ahead for his retirement. His RM at Bank B advised that he was only responsible for general retail banking products and so he would introduce staff from other departments to meet Lo. However, those introductions had not been set up.

(3) Since Lo was very busy with teaching, he did not have time to look after his investments nor could he visit a bank to perform his banking transactions. However, he had set up on-line banking services with Bank B. Despite this, Lo thought internet banking was complicated and he had not even signed in to Bank B's portal.

(4) As his daughter was currently studying in Canada and Canadian dollars were at historical lows, he was interested in buying more Canadian dollars for his daughter's expenses in Canada. Lo expressed frustration that he did not know the exact rate of CAD versus HKD each time he needed to wire money to his daughter. The RM of Bank B had advised Lo to buy Canadian dollars and put this in a Canadian dollar deposit account to earn interest. However, Lo was not satisfied with this advice. He also complained that the telegraphic transfer (TT) charge was rather high at Bank B and found that he needed to visit Bank B to effect the TT, which was inconvenient.

(5) Lo explained that he and his wife had medical plans from their respective employers. However, he was concerned that the coverage from their employers might not be adequate. Jenny advised that her bank had third party top up medical insurance products that could cater to Lo's needs.

(6) Lo advised that while the mortgage rate from Bank B was already quite low, he was still exploring ways to reduce his mortgage expenses.

Exercise 13: Suggested Answers:

The following is a suggested sales strategy for Lo based on the steps in the selling process:

(a) **Customer segmentation:** Jenny had already discovered a great deal of information from the customer, especially about the reasons why Lo moved all his transactions to Bank B. Therefore, Jenny, after approval from her supervisor, advised Lo that she would be his RM. So Lo could refer to her any banking issues. The objective was to provide more focused services to Lo. If Lo was willing to move part of his deposit to Bank A, say AUM of HK$1 million, Lo would be classified as a premium customer, the highest level in the categorization of retail customers at Bank A.

(b) **Life stages:** Lo was in the "having children" stage and looked forward to "living in retirement and leaving a legacy" stage. During this stage, Lo's four retail banking needs were analyzed as follows:

- **Operational need:** Lo's operational need was largely satisfied. However, he might need a more user-friendly internet banking portal to help him meet his operational needs. If the RM could also teach Lo how to effect TTs using internet banking, Lo would see the value of moving TT transactions to Bank A.

- **Credit need:** The only liability that Lo had was his HK$2 million mortgage loan. If Jenny could provide a bi-weekly mortgage loan payment plan, Lo might consider transferring his mortgage from Bank B to Bank A.

- **Risk Management:** Since Lo found medical coverage might be inadequate for him and his wife, Jenny could recommend a top up medical insurance plan to supplement the medical insurance plan provided by their employers. Also, as Lo was frustrated with the cyclical movement of CAD, it is not recommended for him to buy Canadian dollars now and put the money in a deposit. However, Lo could buy a forward contract to lock in the price of the Canadian dollar at a certain time in the future.

- **Saving and wealth creation:** Since Lo was classified as a low to medium risk customer, he could accept a little more risk. Therefore, relatively low risk products such as mutual funds and bank certificates of deposit might cater to Lo's need to earn a higher return than a regular deposit.

(c) **Cross selling:** opportunities for cross selling of different banking products to Lo were high. Based on the four retail banking needs outlined in (2) Life Stages above, the following products could be recommended: internet banking, TT services, bi-weekly mortgage, top-up medical insurance plan from third party, forward foreign exchange services, conservative investment products such as mutual funds and bank CDs. Also, since Lo's hobby was to travel overseas, travel insurance could be another suitable product given Lo's moderately risk averse profile.

(d) **Presenting products:** The products outlined in (2) and (3) would meet the first requirement that products and services cater to the customer's genuine needs. For the second requirement, Jenny should set out and explain clearly the key features, risks and terms of the products to Lo including the risk that mutual funds and bank CDs may be higher than that of fixed deposits. Besides this, CDs are not under the government's deposit protection scheme. For the third requirement, Jenny should ensure the accuracy of the materials and information, especially when she sells top-up medical insurance from third party companies.

(e) **Closing:** Since Lo seems data driven and rational, a balance sheet close might be an appropriate closing technique, when recommending different products and services. Both the pros and cons can be presented so that Lo can fully appreciate the situation and arrive at a rational decision that can cater to his genuine needs.

(f) **Account Monitoring:** Jenny will handle the day-to-day transactions for Lo and will also conduct periodic reviews to see if his banking needs have changed. Obviously, it would be advantageous for Jenny to adopt a pro-active monitoring approach to anticipate needs and maintain a fair share of the wallet size. So periodic reviews could be performed semi-annually.

(g) In summary, learners should be able to apply the following steps of the sales process to Mr. Lo:

i. Jenny should apply market segmentation to Mr. Lo based upon certain criterion such as life stages.
ii. Jenny should be able to cross sell other financial products to Mr. Lo based upon his genuine financial needs and risk profile.
iii. Jenny should then present the key features and risks of the products to Mr. Lo especially how the key features can fulfill his genuine financial needs and risks can meet his risk appetite.
iv. Jenny should choose a closing style that can fit the personality of Mr. Lo.
v. Jenny should conduct periodic and pro-active monitoring of Mr. Lo's account in order to detect out of place transactions so as to identify plausible change in financial needs and risk profile.

(h) The assessment rubric for this case study is as follows:

1. Distinction: identification and full elaboration of the sales strategy in (a) to (f) and additional insightful points
2. Pass: identification and full elaboration of the sales strategy in (a) to (f)
3. Marginal Fail: identification and full elaboration of four of the sales strategy in (a) to (f)
4. Fail: identification and full elaboration of three or less of the sales strategy in (a) to (f)

Appendix: An example of a bank's guidelines on selling process of certificate of deposit
Product: Certificate of Deposit issued by banks in Hong Kong

Risk: Low to Medium

Selling Process:

1. Provide Summary of Terms and Conditions and Prospectus to customers for his or her review before order acceptance (Fulfilment of the second principle on the explanation of the key feature).

2. Advise customer that "This CD is not a protected deposit and it is not protected by the Deposit Protection Scheme in Hong Kong" and obtain his/her acknowledgement. The exact wordings must be used and acknowledgement must be obtained either through written or recording confirmations (Fulfillment of the second principle on the explanation of the major risk of the product and obtainment of verbal/written confirmation from the customer and fulfillment of the third principle on explaining peculiar feature of the product).

3. Explain the product details and disclose key risks associated with the Product to the customer. These risks include Issuer Default Risk, Interest Rate Risk, Credit Rating Risk, Reinvestment Risk and Liquidity Risk all of which must be disclosed to the customer and acknowledgement must be obtained either through written or recording confirmations (Fulfillment of the second principle on the explanation of the major risks of the product and obtainment of verbal/written confirmation from the customer).

4. Remind customer to refer Summary of Terms and Conditions/Prospectus for full product details and risk disclosure (Fulfillment of the third principle on the corroboration of verbal and printed information).

5. Provide customers with investment rationale and possibly how to satisfy customer's investment needs (Fulfillment of the first principle on understanding customer's financial needs, consistency with his/her risk profile and the benefits to the customer).

6. Remind customer to refer to charge/tariff schedule if there are fees to be levied (Fulfillment of the second principle on advice of fees and charges).

7. Send proof of disclosure made to the customer and acknowledgement from the customer to bank's internal mailbox (Evidences to be submitted to bank's compliance department to show the compliance with the selling process by the RM).