Thought Paper

Disrupt Financial Planning!

Turning Financial Planning into a 365 days service

aixigo
Driving the New Wealth Experience.

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The impact of financial planning 365 on the profitability of your business

+58%

Cross-selling opportunities

50%

Mid term cost savings

85%

Process automation

Intro

Do you offer financial planning to your customers on a regular basis, yet somehow the holistic service doesn't elicit any enthusiasm on the part of the customer? How often do you and the customer get together and define goals? Also, when do you or the customer review whether the goals have been achieved or not?

When customers are offered a financial planning service, 4 out of 5 refuse the offer. This is frustrating, given that the majority of these customers would be happy to receive a service that brings them closer to their financial goals, step by step. After all, the customers of financial planning are the same customers who regularly use the service of portfolio management. In portfolio management, both monitoring and reporting have proven to be favoured services. Wouldn't it make sense to transfer these sought-after services to financial planning as well?

In this paper you will learn how to implement this and how to take your financial planning service to a new level. Moreover, you'll find out how the use of portfolio management methods can turn financial planning into a 365 days service.

Financial planning back then and now

Into the 1990s, financial service providers offered their customers wealth management as an exclusive service. Around the turn of the millennium, however, financial planning entered the market and brought about a cultural change in private banking. The service of wealth management was extended to include financial planning to become a holistic, demand-driven service.

Financial planning was very popular among both providers and customers. Almost all financial service providers offered the creation of a holistic financial plan that analyses and optimises all financial domains of the customer.

In recent years, however, financial planning as an advisory service has gone quiet. Potential reasons for this are the enormous effort and the high complexity associated with holistic financial planning. The focus of many financial advisers to exclusively sell in-house products also leads to difficulties in guaranteeing the best possible service.[1]

Probably, also the lack of flexibility of the created financial plans plays a major role. These rarely survive the initial contact with reality, because in real life circumstances are under constant change. The plans created in financial planning are consequently already outdated after a short period of time and become partially obsolete over the course of time.

Besides that, financial planning is still viewed monolithically today, which means that it is only offered as a stand-alone service. Insights and goals are not shared across channels and services. For a service that easily costs a wealthy customer between CHF 2,000 and 5,000, this means wasted potential as well as untapped cross-selling opportunities.

[1] Reittinger, W. (2016): Die Zukunft des Financial Plannings, in: Private Banking Magazin, https://www.private-banking-magazin.de/die-zukunft-des-financial-plannings-die-vorzuege-von-fokussierten-teil--und-themenplaenen-fuer-berater-und-kunde-1471287110/

Due to modern technologies, however, there is now an opportunity to completely rethink financial planning. As a successful provider of technological solutions in private banking and wealth management, we would like to introduce you to ways by which you can update your financial planning offering, taking into account three dimensions – APIsation, reduction of complexity and dynamisation. We break down the monolithic nature of financial planning and demonstrate how to transform an unpopular service into a cross-channel, completely new kind of customer experience – a financial navigator.

Transforming financial planning into an interactive financial navigator

Dimension 1: Technologisation & APIsation

Digitalisation is leading to a fundamental change in customer behaviour as well as to completely new customer needs: Customers want to be able to access information at any time and demand complete transparency. For financial service providers, this means increased requirements in terms of availability, information and transparency. All three aspects are equally crucial success factors for a product or service. Technological solutions, however, offer extensive possibilities to meet these requirements. By means of digitalisation, availability, information and transparency can be guaranteed at all times.

APIs in particular offer two crucial advantages here:

1. APIs form the technological basis for integrating financial planning quickly and flexibly into all conceivable channels, thereby enabling a multi-channel offering. Financial planning can thus be provided via any channel, for example a banking app, online banking or as a self-service on the website.

   The integration of financial services via APIs allows: availability and information at the right time and in the right place. Valuable touchpoints are used and opportunities for sales purposes are not missed. Advisers can provide their customers with up-to-date information via their favourite channel and thus reach out to them exactly where they are.

API-based financial planning is therefore not a stand-alone tool, but offers customers and advisers real added value via various channels!

2. Through APIsation, various algorithms and calculations of financial planning become usable for other financial planning processes (e.g. monitoring, analysis, reporting, etc.).[2] Thereby it is ensured that the customer receives the same information across all channels as the same data can be used across all channels. Depending on the channel, however, this data is presented differently, because each channel has different requirements for the user experience.

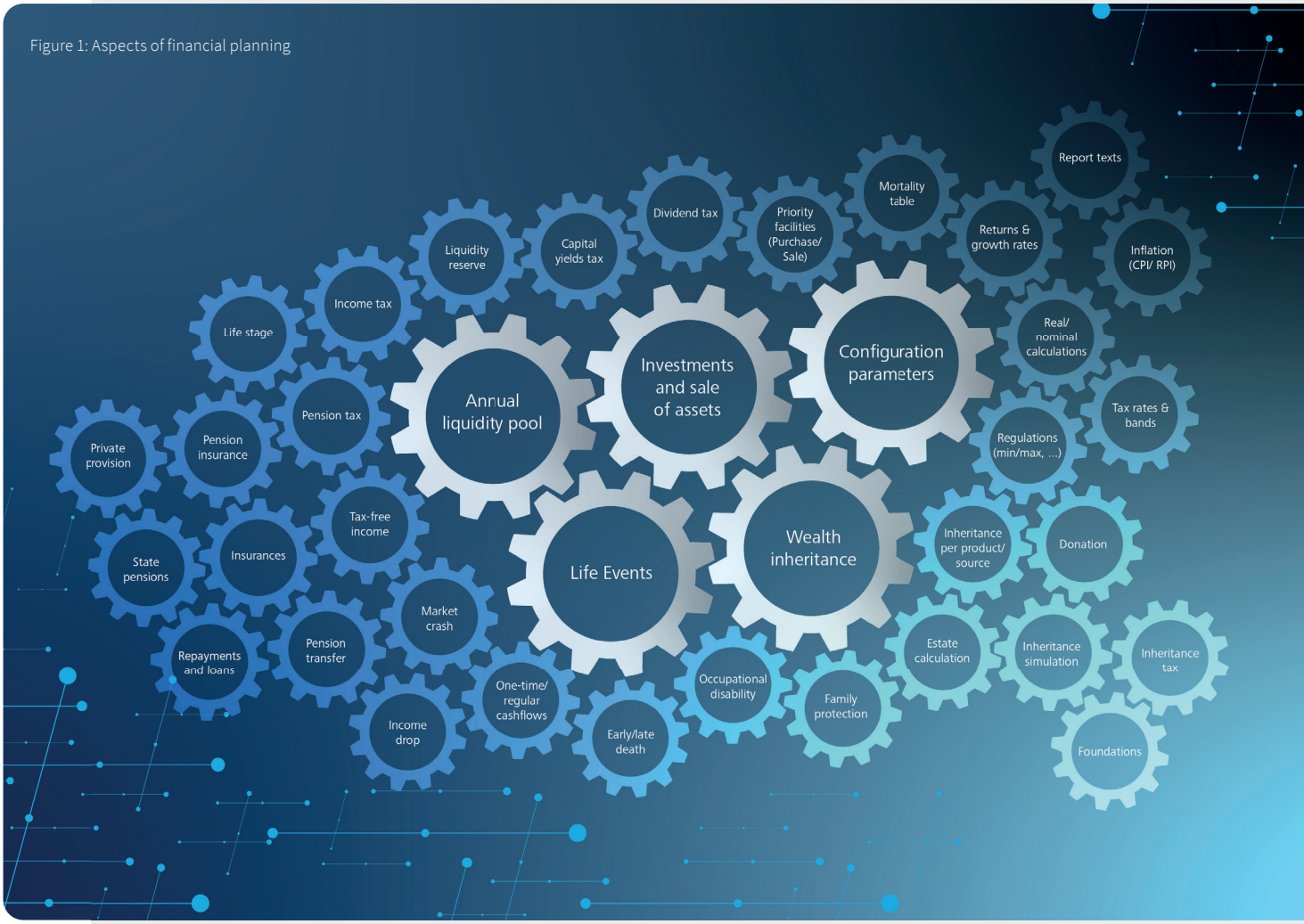
[2] On page 13 we will explain how monitoring, reporting and financial planning can be turned into a real service experience.

How information should be properly prepared to ensure a good user experience is highlighted in the following sub-chapter. Both information and user experience are crucial to ensure full and tangible transparency. Together they form a decisive criterion for the success of a product or service.

Dimension 2: Level of detail

In order to create a good user experience, it should be critically questioned how detailed financial planning needs to be for advisers and customers. A quick glance at Figure 1 illustrates the complexity of extensive financial planning. In addition to the core topics such as income, assets & investments, loans & liabilities and pensions & protection, there are countless tax and legal regulations to consider.

Figure 1: Aspects of financial planning



How much planning and complexity does the customer really need?

How to choose the right level of detail? Financial service providers must ask themselves what level of detail suits both the bank and its customers. In general, a wide variety of complexity levels are conceivable in financial planning, ranging from low to high.

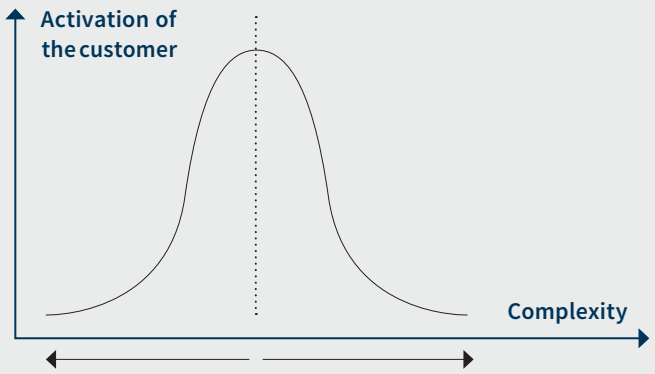


Figure 2: Interplay of complexity and customer activation

The degree of complexity suitable for a customer can be determined, for example, using a diagram like the one in Figure 2. It plots the curve of activation power in financial planning: If financial planning is too simplified and thus trivialised, it has little relevance for the customer because it does not add any value. Highly simplified financial planning therefore has no activation power. As complexity increases, so does the relevance for the customer and thus the activation power. The optimal level of complexity is reached when the activation power is at its maximum. If the complexity is subsequently increased even further, the customer's understanding decreases. The customer's ambiguity aversion kicks in and causes the customer to become passive again. This is because: Customers won't implement anything they don't understand.

Finding the right balance so that financial planning is both relevant and understandable to the customer is essential.

Software provides assistance here. It enables the transfer of highly complex topics to an understandable level. The multi-layered challenges shown in Figure 1 are solved in the background by highly complex algorithms. The customer receives a "purified" description of the information, which he is able to understand and follow. This way, the complexity for the customer decreases while the activation of the customer increases.

[3] Learn more about ambiguity aversion in our infobox on page 10.

Ambiguity Aversion

The term ambiguity aversion originates from behavioural finance. Behavioural finance is a branch of capital market analysis that examines the area of tension between economics and psychology. The origins of behavioural finance go back to 1742.[4] At that time, Georg Chr. Lichtenberg described the classic situation of decision-making under uncertainty.

The term ambiguity refers to a situation under uncertainty. Most decisions in life have uncertain consequences. Decisions such as investing in a mutual fund or purchasing insurance must be made without knowing in advance whether the fund will outperform the market or whether the insurance will have to be claimed. In some cases, the decision-maker can assess the probabilities of the possible outcomes for himself, but in many cases he can't.[5] Ambiguity aversion in this context describes the tendency to prefer the known over the unknown, i.e. also known over unknown risks.[6] Ambiguity aversion causes people to avoid situations with uncertainty because they perceive them as unpleasant. In case of doubt, this causes passivity and an adherence to the status quo. Ambiguity aversion has also been documented in many real-life situations. Due to this behavioural pattern, many people, for example, avoid participating in the stock market because it involves unknown risks for them.[7]

However, research also shows that the decision-maker's confidence in his or her own competence can have a positive effect in the presence of ambiguity. Thus, contrary to the ambiguity aversion hypothesis, it has been proven that people often bet on their uncertain beliefs in situations where they feel particularly competent or informed.[8]

Strategies to avoid uncertainty and perceived loss of control:

Ensure comprehensibility: *The topic of financial planning is complex. Technology allows the reduction of complex content into information the customer can understand, evaluate and assess.*

Reduce information overload - quality over quantity: *Uncertainty arises when information is missing or when there is so much information that it is impossible to include all of it in the decision. In case of a 130-page financial plan, for example, it becomes almost impossible to include all conditions in a decision. Therefore, only provide the customer with the information he needs to make a decision. Break down complex topics so that they can be consumed. Nobody learns by being overwhelmed.*

Confidence through coaching: *Help the customer to understand and evaluate financial decisions on his own. Enable him to acquire his own competence. If you manage this, the customer will value your advice and trust your expertise.*

[4] Goldberg, J. & von Nitzsch, R. (2004): Behavioral Finance, FinanzBuch Verlag
[5] Fox, C.R. & Weber, M. (2002): Ambiguity Aversion, Comparative Ignorance, and Decision Context, in: Organizational Behavior and Human Decision Processes, Vol. 88, No. 1, pp. 476–498
[6] Ellsberg, D. (1961): Risk, Ambiguity, and the Savage Axioms, in: The Quarterly Journal of Economics, Vol. 75, No. 4, pp. 643–669
[7] Easley, D. & O'Hara, M. (2009): Ambiguity and Nonparticipation: The Role of Regulation, in: Review of Financial Studies, Vol. 22, No. 5, pp. 1817-1843
[8] Heath, C. & Tversky, A. (1991): Preference and belief: Ambiguity and competence in choice under uncertainty, in: Journal of Risk and Uncertainty, Vol. 4, pp. 5–28

Dimension 3: Dynamisation

"No plan survives contact with reality."

One problem with traditional financial planning is that it only reflects a snapshot of a customer's financial situation. This is because usually a maximum of 1-2 advisory appointments take place per year. In some cases, the interval is even longer. The problem with this is that it is highly likely that reality has crossed path and the planning no longer fits, or only partly fits, the goals being pursued.

How can this be optimised? Through the use of modern technology, a shortening of the interval is feasible. APIs allow to turn financial planning into a daily service. Financial planning can thus become an experience in which the customer is accompanied 365 days a year and attention is paid to his assets and his financial goals.

In contrast to financial planning, portfolio management has long been such a 365 days service. Monitoring, optimisation, rebalancing and reporting already take place everyday. This ensures that the goal of wealth accumulation can be achieved in the best possible way and that the customer is permanently kept on "course".

Various types of information are relevant to financial planning. On the one hand, there are key topics that hardly change over a longer period of time, such as the marital status. On the other hand, information that changes continuously, such as liquid assets, is also included. For the latter type of information, the instruments of portfolio management are optimally applicable. Taking advantage of this opportunity results in a more dynamic approach to financial planning.

Figure 3: Portfolio management instruments

Dynamic financial planning offers the following benefits:

By regularly updating the customer's asset and risk situation, the financial planning and the corresponding measures are always kept up to date. In addition, the regular updating of the asset and risk situation leads to transparency for the customer.

The regular updates make the customer feel well advised and better able to follow – with positive effects on his service experience and satisfaction.

In traditional financial planning, the information overload and the extensive reports are blocking the service experience. They lead to an overload of information and this in turn leads to inactivity. With dynamic financial planning, on the other hand, the breakdown into continuous small "information bits" prevent the customer from being overwhelmed by the topic of financial planning. The customer is activated to take control of his financial life in order to achieve his financial goals.

Through consistent short updates, the customer regularly deals with the topic of financial planning. As a result, learning effects occur quickly and the customer develops a better understanding of financial planning in the long term.

Once the customer has become accustomed to such an exclusive service from his financial service provider, switching providers becomes unattractive – meaning intensified customer loyalty.

Overall, dynamic financial planning increases the customer's service experience. The customer can now fully benefit from the exclusive advisory service.

In the following, we demonstrate how the insights gained can be translated into practice and how you can create an exceptional service for your customers. The concrete benefits of such a service are also highlighted on pages 19 and 20.

The interactive financial navigator: Three possible use cases

It's time to move on to a new chapter in financial planning and to completely redesign this service.

Modern financial planning should provide the customer with a daily overview of the goal achievement of his plans and should always keep the planning up to date. It should also offer ongoing cross-selling opportunities to the financial service provider. Overall, modern financial planning should raise the quality of wealth management to a whole new level.

In the following, we present three options for turning the dusty financial planning service into an interactive financial navigator. The three alternatives differ essentially in the scope of services included. All financial navigators offer the customer a continuous update – consumable in the timespan of a cup of coffee. The adviser becomes a financial coach who continuously keeps the customer on track.

Figure 4: Three use cases of an interactive financial navigator

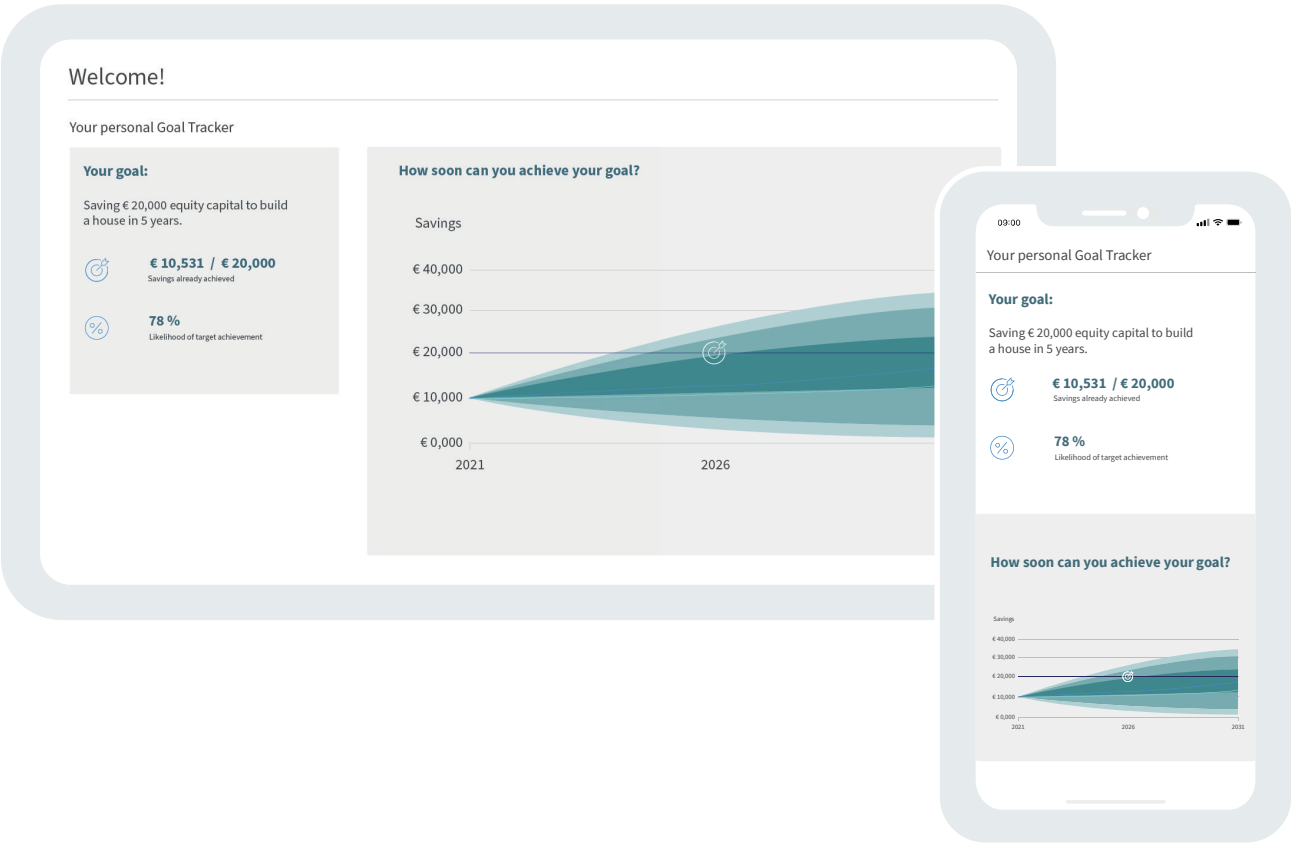
Included scope of services
Optional scope of services

The scalable Goal Tracker

The Goal Tracker is the ideal solution for customers who love straightforward solutions and wish a constant update on their finances. It is based on the simple financial planning approach of goal-based advice, which is low in complexity. The customer specifies his goals and the Goal Tracker monitors the goal achievement. By means of the underlying API technology, the ascertained information is made available via the customer's desired channel any time.

Since the Goal Tracker uses the instruments of portfolio management only to a very reduced extent, the response to the information provided is up to the customer. He can rebalance on his own based on this information or actively contact the adviser if questions arise. There is no automated rebalancing. The focus of this financial navigator is to give the customer a regular update on his goal achievement. Through the regular updates, the customer is continuously "nudged" and informed about changes. Step by step, he is encouraged to become active in order to achieve his own goals. This approach is called "nudging"[9].

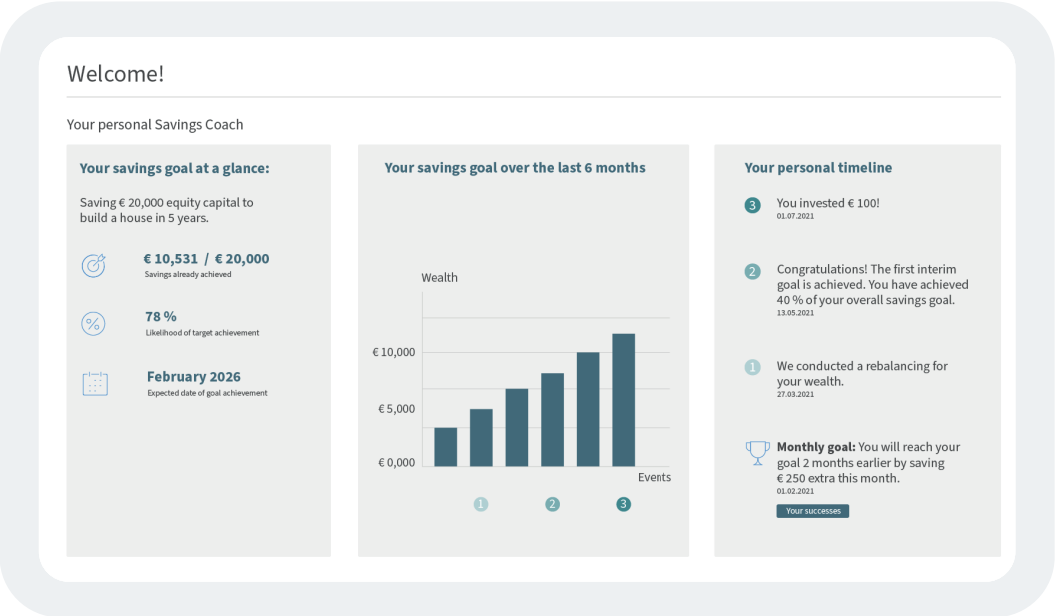
Retail customers in particular could benefit from the introduction of such a Goal Tracker, which keeps them informed of their progress with regular updates. After all, the Goal Tracker is a consistent continuation of the approach of goal-based advice. **Goal-based advice turns into goal-based guidance!**



[9] Find out more about "nudging" in our infobox on page 17.

The personal Savings Coach

The personal Savings Coach is as well based on the simple financial planning approach of goal-based advice: the customer's goals and wishes are qualified and quantified initially. As with the Goal Tracker, these goals are permanently monitored. The customer can observe and understand the status of his goal achievement at any time. The Savings



Coach constantly monitors the accumulated savings. In addition, however, the actions of the customer as well as those of the portfolio coach are taken into account.

The idea is to regularly analyse the goal achievement of the customer's portfolio and to invest the customer's savings amounts automatically and in a targeted manner. Additionally, the saved assets are subject to regular rebalancing, taking the customer's goals into account. Thus, central instruments of portfolio management are used by the Savings Coach. In a nutshell: The concepts and methods of portfolio management are used for financial planning.

However, the Savings Coach not only ensures intelligent investment decisions, but also enables active communication with the customer. In the form of a timeline, the customer receives a comprehensive overview of the specific investment and rebalancing activities. Likewise, the customer's actions as well are analysed and displayed. By means of "nudging"[10], the customer is motivated to save regularly. This also entails celebrating achievements and positive changes in the savings behaviour.

Like a good trainer, the Savings Coach ensures that the customer improves his regular savings behaviour and is thus able to realise his goals at a faster pace.

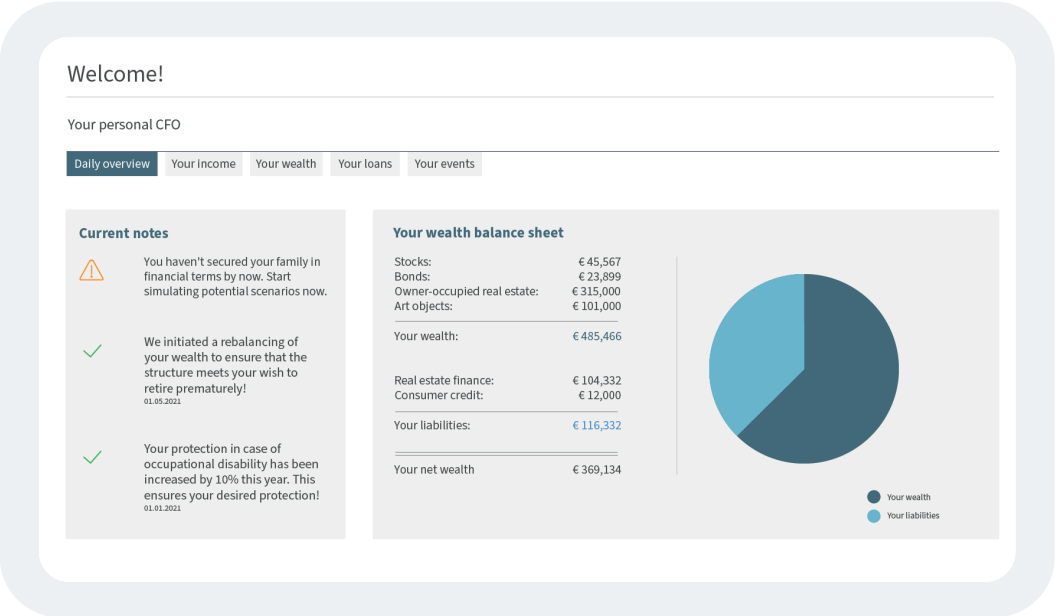
[10] Find out more about "nudging" in our infobox on page 17.

The exclusive CFO

Complex financial situation? Complicated analysis? For the exclusive "CFO" this is daily business. The concepts of financial planning and portfolio management form the starting point. The exclusive "CFO" approaches the customer's financial situation holistically. He analyses the coverage of the family as well as the coverage of the income against different scenarios and always includes the current development of the customer's liquid assets. Due to the regular automatic updating of these liquid assets, the statements around financial planning can also be kept up to date. If important changes occur over time, the customer is informed proactively.

There are two design alternatives for this new service: On the one hand, it is possible to only include a few elements of portfolio management, such as portfolio analysis. In this case, it is merely about constantly updating the customer's planning and thus guiding the customer towards achieving his goal. A second option is to include additional elements of portfolio management such as automatic rebalancing. Ultimately, the result is a combined service of financial planning and wealth management.

However, in order to gain broad acceptance of this high-quality service among your customers, our recommendation here applies as well: Expose your customers at most to a medium degree of complexity to avoid overwhelming them.



Good to know: If these approaches inspire you, but you are unsure which one best suits your company, feel free to contact us! Together and without obligation, we will evaluate an approach that fits your corporate culture and the needs of your target group.

Nudges

How nudges can be used to encourage customers into taking long-term action.

The digitisation of financial services has led to a much faster market democratisation in recent years. However, many new customers still seek support in their long-term planning. In markets where digitisation is already more advanced, some innovative mechanisms can be observed to reach, advise, accompany and provide a personal experience to investors 24/7. Here we are referring to nudging: companies increasingly use algorithms to "nudge" individuals towards desirable behaviour through the use of subtly placed incentives.

Our new financial planning approach represents another high-quality form of nudging. It is intended that, if possible, a financial plan should accompany the customer throughout his entire life and should take all possible events into account. This presupposes a certain commitment on part of the customer to stick to the plan, but also the need to keep the financial plan up-to-date and relevant. If financial planning is supplemented by portfolio management instruments such as monitoring, analysis and rebalancing, entirely new possibilities arise to support the customer 365 days a year.

For instance, customers who conscientiously execute their savings plan and maintain or even increase their savings rate can be rewarded with small achievements or rewards. A continuous visualisation of progress through achievements, for example, ensures that the customer's loyalty and self-commitment increase significantly. If subtle push notifications are used in addition, the customer's attention is assured.

More complex portfolio management tools such as rebalancing can also be used for nudging. In most cases it makes sense to adjust the asset allocation in the customer portfolio to events in the customer's life, even at short notice. By means of data analysis it is possible to proactively read out changes in the customer’s current and projected cashflow, in transaction habits or independently added customer goals. This allows to anticipate possible change demands on the customer's portfolio in terms of financial planning and to generate change suggestions which are then digitally presented to the customer. In this way, rebalancing features of portfolio management are meaningfully integrated into financial planning. If the financial plan dynamically adapts to the reality of the customer's life, this is an effective nudge to bind the customer to his long-term strategy and to give him a lasting feeling of care.

Nudging in Financial Planning

Financial Goal

Incentivisation

"For every 100€ saved, we'll plant a tree."

Mentoring

"Save 25% more this month to achieve your goal 2 months earlier."

Goal tracking

"You have already achieved 20% of your goal."

Education

"Did you know that visualising the savings progress helps 80% of people to reach their goals faster?"

Goal definition

"What financial wishes would you like to realise?"

NUDGE & NAVIGATION

Your benefits from using a financial navigator

Quality

Improves service quality, as information and recommendations for action are always up-to-date and therefore relevant.

Trust and customer loyalty

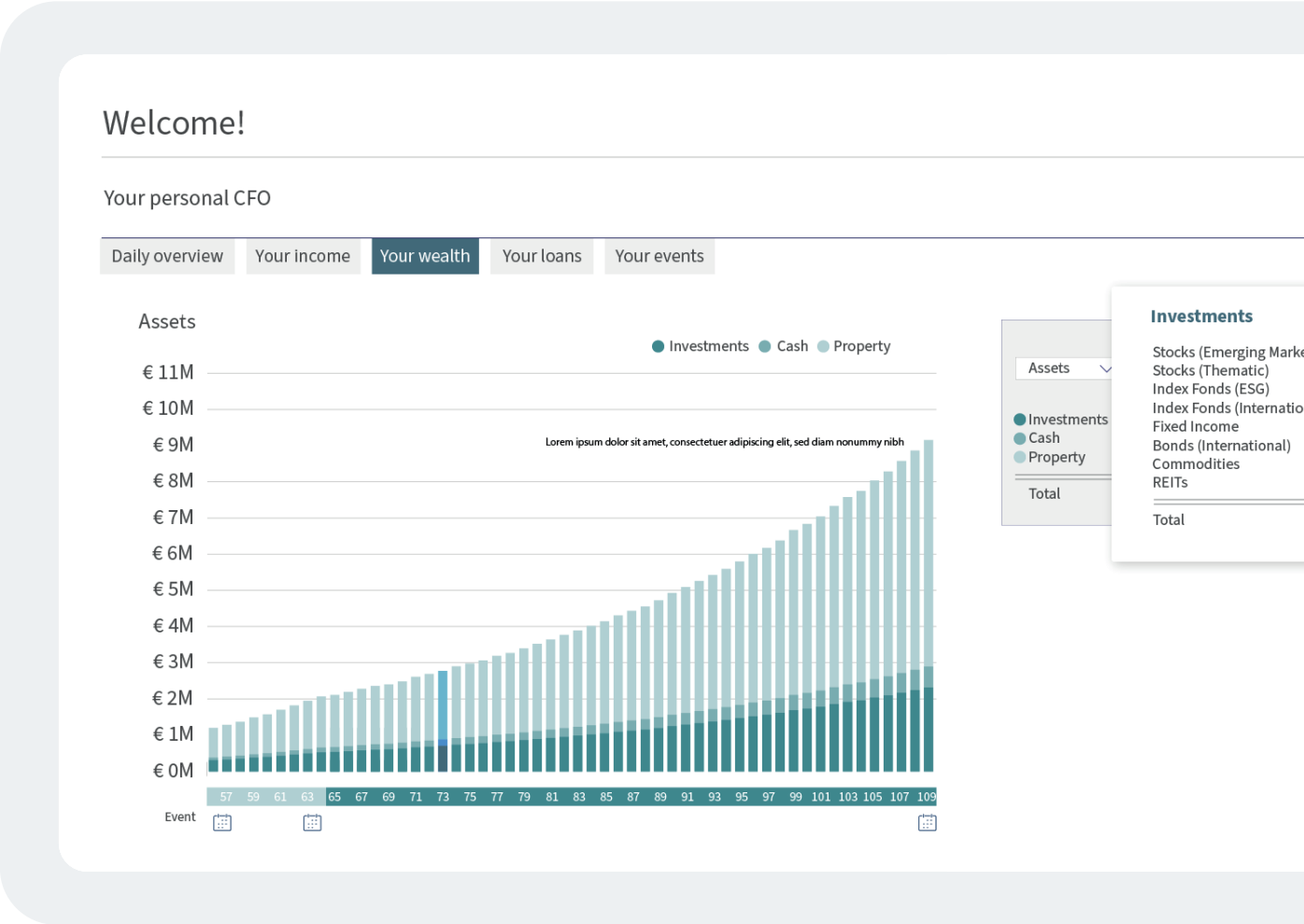
Keeping the customer on track builds trust. A satisfied customer remains a loyal customer.

Performance transparency

The customer experiences the competence of his financial adviser on a daily basis and can fully understand his actions or recommendations. In addition, he can easily understand how realistic certain goals are based on life events occurring and his financial life.

Comprehensibility and competence

Through the constant examination of the own finances and goals, the customer will develop a better understanding on the subject of financial planning.



Digital Relevant Set

Due to the enormous activation of the customer to regularly monitor his goal achievement, a digital interaction occurs on a regular basis. The financial service provider becomes an integral part of the customer's daily life.

Increased revenue

The significantly increased number of events and communication occasions leads to significantly more transactions and business deals.

Nudging

The new financial planning is a high-quality form of nudging that increases the activation and retention of the customer and supports him in accumulating wealth more quickly.