Financial Planning:
Servicing the Mass Market

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With over 20 years experience in the financial services industry in Australia, Lock has extensive knowledge of personal financial planning business models and how they impact on the client advice experience and practice profitability.

By Matthew Lock
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SUMMARY

Recent concessions from the regulator regarding the provision of limited advice and the SOA exemption for small value investments (less than $15,000) has ignited a sleeping giant among financial services organisations.

Many are starting to now turn their attention to the millions of Australians aged between 35 and 55 (accumulators) who have been largely ignored by the wealth management divisions within these organisations.

However, before these institutions can tap into this rich new vein of product sales to the accumulator market, they have to overcome the cost, reward and time challenges associated with operating in a vast market place at high cost and with low value transactions on a per client basis.

If you immediately thought that the answer to this challenge is the web, you would be partly correct. It also requires an integrated, scaleable advice technology platform that reflects a deep understanding of the real financial planning process.

In the following paper, we conclude that in order to succeed in the retail direct, guided advice market, financial services organisations will need to:

- Take the responsibility for accessing this market away from existing wealth management divisions;
- Invest in scaleable, web-based guided advice platforms;
- Adopt a systematised financial planning process as the centerpiece of this platform; and
- Use call centre and webinar technology to deploy this guided advice service to the accumulators.

If implemented well, in the long term an online guided advice platform for DIY users will expand the market for “one on one” advice delivered by financial planners.
BRIDGING THE GAP
The mass “middle” market for personal financial advice and products in Australia and overseas remains largely ignored by the wealth management industry.

The reason for this is simple. Put bluntly, the traditional wealth management Client Service Delivery Model (CSDM) is too expensive to profitably service the mums and dads.

The cost of delivering and maintaining a “face to face” advice service which relies on highly paid advisers seeing one client at a time clearly disqualifies this model as a commercial offering to the mass, accumulator market.

WHY NOT WEALTH MANAGEMENT?
The term “wealth management” has become a pseudonym for personal financial planning. Currently personal financial planning generally only deals with those who are either at or nearing retirement. In other words, the wealth management divisions within the major financial services organisations mostly deal with clients who are in or approaching their de-accumulation phase … not their accumulation phase.

Firstly, in targeting the mass accumulation market, the required skills are much more likely to be found in the retail operations of large bank and insurance organisations where the promotional, branding, technology and product offerings are all attuned toward attracting large volume, low value transactions.

Secondly, in order to generate product transactions from self directed customers, the online guided advice platform has to generate an actual or implied “informed consent” from the customer electronically. This requires an education process that focuses on the inexorable link between:

- what the customer needs to fund their lifestyle plans;
- the investment returns they need to fund their lifestyle;
- the underlying asset allocation they will need to invest in to generate these returns;
- the risks associated with these assets; and
- their personal risk tolerance.

In my experience, of all the admirable services that planners provide to their clients around tax and investment arbitrage, educating their clients around these issues is inconsistent and poorly done. To address this, CARM has developed an online guided advice platform that generally does a more systematic job of obtaining some form of informed consent from retail customers than planners do “one on one”.

Secondly, the traditional financial planning process offered to clients is largely risk focussed. This approach requires the presence of a planner to help their clients (couples) arrive at an agreed risk tolerance level. It is this agreed risk tolerance position that is subsequently used to select an asset allocation and ultimately the products that underwrite it.

While this negotiation process can work well in a traditional financial planning “one on one” environment, the challenge is to translate it into an online environment.

SCALEABLE ADVICE (TECHNOLOGY) PLATFORM
The term ‘scaleable advice platform’ was used almost a decade ago by US based research house, Cerulli and Associates. They used this term to describe a single technology platform that could catch and retain customers in their accumulation phase and then retain them as their advice needs shifted over time. This type of “advice” platform is very different to the transaction platforms which exist on the web in the form of share/discount broking applications which tend to be offered on a ‘no advice’ basis.

Our interpretation of the scaleable advice platform concept appears in Figure 2.

Low account value, early accumulators tend to use the internet to source single purpose calculators such as lending models, budgeters and simple savings/retirement calculators.
As their wealth grows and their advice needs escalate, users will seek out phone, email, or web conferencing (webinar) support to provide the guidance and reassurance they need as they make more holistic financial planning decisions. It is worth noting that we are aware of several large superannuation funds that are already providing call centre ‘advice’ support. With the advent of online applications, it is only a matter of time until webinar support is added through their call centres.

Again, as their wealth continues to grow, ultimately users will move away from the DIY space and cross over to the intermediated (planner) space.

Cerulli offered some evidence that indicated that in 2001, the estimated crossover point between the DIY and intermediary space was approximately US$50,000. During a subsequent meeting with them in early 2006, they indicated that this estimate had doubled to US$100,000.

Regardless of the reason (or reasons) for this apparent rapid increase in DIY tendencies, the implication is that the need for advice from the mass accumulator market is growing quickly.

EXPERT SYSTEMS THAT REPLICATE PLANNER EXPERTISE

The major difference between a scaleable advice platform and the existing planner systems is process. Without process, automation of a guided advice system (in a technology sense) is impossible.

To emphasise this point, consider the existing financial planner systems in the market. I would argue that the majority of these systems are the antithesis of process. They are designed to appeal to a wide range of planners and planner approaches. In other words, free range systems for free range planners.

By contrast, an online, scaleable advice platform must impose an overarching planning process through which the customer can navigate without assistance.

In my experience, two broad financial planning processes dominate the “one on one” planning environment namely a goals-based process and a risk-based process.

With regard to the former, the process starts by getting the customer to quantify their goals from which the required returns, asset allocation and risk outcomes flow. By contrast the later process starts with the Customer assessing their risk tolerance which then drives the subsequent planning process.

From a technology perspective, unless the organisation can afford to build in both approaches into their online advice platform, the organisation will have to decide which of these approaches:

- is better at engaging and retaining the customer in an online environment; and which
- can be more readily codified (actually programmed).

While CARM’s existing online guided advice platform can be customised for financial institutions to handle either approach, our “off the shelf” application known as C2 My Finances uses a goals-based approach.

Having decided which underlying planning process the organisation will use, the next step toward building a scaleable advice platform involves the codifying of the planners skill. Sometimes referred to as “expert” systems, this type of system replicates the skill of a planner in selling or engaging the user, collecting data, identifying needs deciding the tradeoffs and ultimately providing the call to action (strategy and product transaction).

From experience, the task of specifying this codification process will take 2 to 3 times the effort required to actually cut the programming code. It will also require a wide range of skills incorporating useability and learnability design through to acute technical financial planning expertise. However, with that said it can be done and the commercial rewards for the organisations that achieve it will be worth the effort and resources.

WHY GOALS-BASED PLANNING?

We believe a goals-based planning process is much more likely to engage and retain prospective customers in an online environment.

In my experience, the dominant motivation for customers when seeking advice is to achieve their actual lifestyle goals. Unfortunately, the way planners “frame” their services for their clients is to distill these goals into tax and investment strategies which are rarely related back to their clients’ goals.

Put simply, customers want help articulating their goals, finding the tradeoffs and tracking their progress. They don’t want to become pseudo tax, super and Centrelink experts.

Goals-based planning starts with costing the customers wants and wishes which in turn drives the savings and return solution required to fund it. Using this approach, risk is a byproduct of the planning process not the initiator.
THE TECHNOLOGY PLATFORM

A couple of years ago, one of our competitors in the software industry stated, as an absolute truth (as he saw it) that large scale complicated financial planning calculation engines cannot exist in a web only environment. Not surprisingly at the time, the product suite he had available for the market was predominantly desktop-based.

As it was then and as it now, this truth was in fact a furphy. CARM’s existing online guided advice platform undertakes dozens of tax, super and Centrelink calculations for each individual each year for up to 125 years. The data for each new iteration is sent to the customer at near desktop speeds where it is refreshed through the outputs and graphs.

While I am sure that since CARM deployed its application in 2004 that better platforms exists, when it was built we used Microsoft’s .Net framework (currently version 3.5) and SQL database technologies.

From an interface perspective, we designed the application in order to provide a rich, browser-based experience that existing users of Windows applications find quite familiar.

It can be deployed as a standalone in a corporate intranet/ extranet, or over the internet either self-hosted or through CARM’s application service providing capabilities (ASP).

The architecture of the application utilises “N tier” concepts, and enables “scaling up” and “scaling out” through its ability to use web farms, component load balancing and server clustering technologies.

Use of these technologies enables CARM to support virtually an unlimited number of users.

The application fully exploits Microsoft’s ASP.Net web server functionality and can be easily integrated with disparate systems such as a corporate CRM system via Microsoft’s ‘XML Web Service’ technologies.

CONCLUSION

The aim of this paper is to provide a blueprint for those organisations looking to dramatically increase their Product per Customer ratios through the direct up selling and cross selling of products to their accumulator customers.

At CARM for example, this can be best achieved by providing the accumulator customer with something they can’t currently access: meaningful, low cost advice.

If done well, the online guided advice platform they will need to develop and deploy to provide this service can become a financial planning decision making machine for the customer from which product transactions will flow.

EDITOR’S NOTE

An abridged version of this paper appeared in Issue 1, 2008. We have reproduced the full paper in this edition on subscriber request.