

Web technology the answer to investor engagement

Overview

This White Paper argues that the answers to the myriad ‘engagement and trust’ issues currently perplexing the financial services industry lie in the adoption of smart, intuitive, interactive technology.

The benefits to the sector, and to the mass-market of largely disengaged consumers across Australia, are many.

Introduction

Change is constant. However, the past couple of years have proven tumultuous for the financial services industry.

Stakeholders along the entire value chain, from financial planners, IDPS platforms, product manufacturers, to retail super and industry super funds and ancillary service providers have grappled with significant regulatory and consumer-led government reforms. On top of this the 2007 credit crunch and ensuing global financial crisis decimated investment fund performance and rocked the faith of consumers in their advisers, their superannuation fund and those large brands managing their discretionary savings.

Market volatility has left a varied impact on people. Typically, investors have displayed a classic ‘fight or flight’ response. Some have been shocked into fight mode - actively engaging with their advisers. Others - especially those who have not previously sought advice - may be taking a ‘head in the sand’ approach.. Some investors are just plain confused, angry and frustrated.

The reality for the financial services industry however, is that long before the recent market upheavals, it has struggled to engage people to take an interest in their financial future. ASIC’s recent submission to the Ripoll joint parliamentary inquiry into financial services and corporations Parliamentary Joint Committee JC stated “access to advice is relatively low, with only 22% to 34% of adult Australians accessing financial advice”.

Some larger financial institutions and industry funds have significant client bases – in the order of one to three million – while several others typically service 0.5 to one million customers. Most Australians in this mass-market have existing accounts with multiple organisations. It’s a case of who can be first to engage with their so-called ‘long tail’ of existing clients and convert them into ongoing advice-seeking, consumers of financial products – a ‘use it or lose it’ scenario.

There is now an impetus for heightened change - largely driven by consumers, informed by a media, which is questioning the value, average Australians receive from the industry. Such scrutiny was not present during the heady period of double-digit returns that preceded the recent crisis. In an increasingly web-savvy world, this change needs to enable financial practitioners and institutions to fundamentally alter how they engage or re-engage with customers, while delivering value to all parties.

This paper argues a need for the industry to embrace modern, web-based, easy-to-use technology as a means to transforming the financial services sector. A good example is the way that SEEK.com.au has transformed recruitment and eBay has had a transformational impact on online shopping. It introduces a new direction where the client has greater involvement in the planning process, does a minimal amount of work for the outcome and deals exclusively with relevant, real time facts and figures.

It's not the death of the adviser. It's the birth of the Smart Calculator.

Advice models - under-utilising technology

The Australian financial advice industry has always looked to software to help transact, keep records, provide taxation statements, and reconcile data about money, its owner and their investment. But technology has really only been used on a minimal basis, largely as a means of simple record-keeping, with few enduring business benefits. There is a long history of software development across the sector but to date, no one has been able to provide a solution that addresses both adviser and consumer needs for cost-effective provision of advice.

Advice practices – both independent financial advisers and those practising within a financial institution – have used planning software packages, such as XPlan, VisiPlan and Coin, but these programs are not necessarily used by advisers to plan; they are used to capture the outcome of the planning process. These packages also fail to help the adviser interact with their client in a way that is financially and educationally beneficial to both parties.

Under-utilisation of modern technology was highlighted in a survey of 892 financial advisers conducted by Wealth Insights in 2007, as part of its *Adviser Market Trends Report*. The survey found that large numbers of Australian planners nominated Microsoft Office as their primary and secondary software, with 66% of those people reportedly happy using this generic offering.

The survey also found that planners exhibited a remarkable reluctance to change the way they do things, with 50% of them saying they would be 'very unlikely' to change their primary software in the next 12 months. In response to these results, Wealth Insights Managing Director, Vanessa McMahon said the apparent dependence on Microsoft Office presented a great opportunity for financial planning software manufacturers.

The introduction of regulatory reforms to the industry, coupled with a significant increase in compliance requirements, is also consistently reported by advisers as an impediment to their profitability, with associated operating costs in the order of 10-15%.

Another Wealth Insights survey, conducted in late 2007, found that 74% of planners cited compliance as their biggest concern, with insufficient time spent servicing clients coming a close second. Only 35% of an adviser's time was reportedly being spent meeting with clients or reviewing portfolios.

Whether discussing client engagement or the burden of compliance, these and many other examples across the industry serve to underpin a desperate need to utilise new technology for the benefit of all. Smart technology not only provides an answer to reducing the compliance and back office costs for advisers, it can also provide a new engagement model to generate more prospects as well as actively re-engaging with existing clients.

Miscalculating client needs

As more and more people have taken to the Internet as a means of information, entertainment or commerce, financial service providers have moved to ensure their websites offer 'something' for existing clients or visitors to engage with.

To date, this offering has consisted of web-based calculators or simulators that provide – or give the appearance of providing – customers with some basic understanding of their financial situation. These tools are either developed by in-house staff, or they are outsourced to software developers. External parties such as actuarial consultants and accounting firms also provide some online calculators.

Calculators are relatively cheap and easy to build and can be continually developed. Hence a large array of calculators are delivered, without a strong focus on what was actually expected in terms of a return on the investment in the tool.

There has also been a serious miscalculation of the needs of clients. Financial institutions have looked to online calculators to deliver low cost ways to educate and engage with a largely 'financially illiterate' and increasingly distrustful audience.

However, calculators and simulators are fundamentally flawed on two levels when it comes to educating a financial novice.

- 1: Even if using one compelled the user to take some action, their time spent online goes unrewarded; and
- 2: the provider of the tool is reliant on the user's goodwill to make contact – also running the risk that the user will simply contact a rival institution.

Flaws and effect

While designed and built with best intentions, the range of online calculators and simulators currently available to consumers are flawed in a number of ways.

This includes the calculator available through the majority of wealth management companies including government authorities.

Such flaws may be categorised as follows.

Flaw #1 – Too simplistic or too complicated

If the calculator only requires a small amount of data, then it is no more sophisticated than a simple spreadsheet. While the user does not know what is missing, they are smart enough to know that the answer provided is too simplistic to be of much value to them.

If the calculator is able to take into account a real life range of considerations, then the amount of data that needs to be populated upfront is inhibitive on three levels:

- a) it is time-consuming to populate screens full of data, not knowing if the effort will be worthwhile

- b) the user may not know the values of the data required (like their living expenses or their account balances)
- c) the user may not understand what some of the fields are referring to, and whether they are relevant to them.

Irrespective of whether the calculator is overly simplistic or complicated, it is not going to serve the purpose of sufficiently educating the user about their situation to the extent that they can overcome their vulnerability about seeking advice.

Flaw #2 – Presumption of an investment strategy

Calculators and simulators can only provide answers within the scope of a single particular financial strategy, e.g. accumulating superannuation for retirement, paying down debt, direct investing, or margin lending.

Hence they are not able to show the user, based on their particular situation, how fundamentally different strategies play out relative to one another. This needs to be the starting point of any education, not a presumption. The user knows they have jumped a step, simply by being forced to select using one calculator in a suite over another.

Flaw #3 – Work cannot be saved

Given the above flaws, if a keen consumer was to use a particular calculator or simulator to its fullest, they would need to have achieved this in one sitting, because their hard work cannot be saved for later use or review.

So users are faced with having to retype their data each time they choose to use the tool. If their situation warranted more than one question being asked, they would have had to retype their data into each respective calculator involved in their natural chain of questions.

This is time-consuming and frustrating for most of today's 'time-poor' consumers.

Flaw #4 – Advising a client who used a calculator costs more

A client armed with answers from calculators and simulators will cost significantly more to advise because the adviser will first need to be able to understand the assumptions that went into the answers provided by the calculator.

The adviser will then need to go back to the start of the conventional process of giving advice, including gathering a fact find about the client and exploring options.

Every step however, is encumbered with the user having gone through a compromised parallel process, which the adviser has no means of easily reconciling. Either the adviser chooses to try to play down the significance of the answers from the calculator, potentially alienating their new client, or they must incur the cost of continually reconciling their advice with that implied by the calculator.

Self-starting is the key

So far we have discussed the imperative for change in an industry struggling to attract, satisfy or retain consumers, and the fundamentally flawed attempts made to engage and educate clients through web-based technology. If ever there was a time for an all-embracing solution it is now.

In order for the financial services industry to generate leads from the broader or mass-market, they need prospects to be able to appreciate their current situation and have some sense of what their options are for a financial strategy or plan.

This requires far more effective educational approaches than has been the case to date. It also requires people to be able to feel comfortable about how they are learning. Nothing is more off-putting to people than being made to feel ill-informed and, while the industry tries valiantly to explain concepts, terms and options to consumers, they fail to appreciate that most people are easily overwhelmed and simply don't know where to start. As soon as people are forced to make choices they are not confident about, they feel more vulnerable and become reticent to proceed further.

This is why the concept of 'self-starting', using intuitive interactive technology, is the key to engagement or re-engagement of consumers. A consumer works through a process online that simultaneously informs and educates them. This is done in their own time and at their own pace. They can stop at any point and come back to where they left off. There is no pressure to go in a certain direction nor is there pressure or bias to buy a particular product or service. Best of all, the consumer has complete control over the process and can employ some of their own bias if required.

The other key benefit of self-starting technology is that it accommodates all styles or personalities. No two people are the same when it comes to using software and this is catered for with intuitive interactivity that does not make users feel they are progressing too slowly or too quickly, or that they are missing something along the way.

Self-starting technology leads the consumer to a point where they effectively make themselves a prospect. If a particular institution or practice has provided that prospect with the technology in the first place they have far more chance of securing a lead from that prospect – and a qualified one at that - than currently happens via relatively static online calculators or simulators sitting on websites.

The difference between pointing someone to a freely available website and suggesting they try it because it's worthwhile, versus giving them access to a personalised link, or 'purl', created for them using information they know is held by the provider, is a significant one.

The more personalised the link, the more likely someone is to open it and start exploring.

Introducing the Smart Calculator

A Smart Calculator, not unlike a 'smart phone' with its inbuilt intuitive technology and ease-of-use, is what financial planners and others need to offer prospects, via a personalised link or 'purl' (personalised URL).

With an advanced financial modeling technology engine, a Smart Calculator can generate choices of personalised financial plans instantaneously and easily.

Consumers provide their own, minimal data and the system performs millions of calculations, presenting them with a unique financial blueprint in seconds. An adviser's role becomes primarily one of validation and advice.

This smart technology can be used to:

- Enable someone to understand their financial situation and to set goals; then
- Create a plan in conjunction with an adviser – by phone or face-to-face; then
- Review progress against goals; then
- Reset goals and the plan as required.

The Smart Calculator is simple to use but not simplistic. There is enormous complexity behind the calculations it performs but the user experience is far from inhibitive because:

- It doesn't take long to populate with data because input is minimal
- The user doesn't have to know the values of data, e.g. living expenses, because the system calculates this for them, based on their profile and current ABS data
- Only relevant and clearly defined fields are presented to the user for completion
- The information is of no value to anyone but the user
- There are no privacy issues because it doesn't contain personal information such as account numbers, etc.

A Smart Calculator has the scope to not only provide a user with a range of financial strategies to consider, it can also show them the different outcomes that will result from choosing different strategies – all using the one set of personalised data input by them.

When a client uses a Smart Calculator, it's not a one-off experience. Everything is saved for next time and the user is allocated a session id so they can return to where they left off, whether they completed it or not. The ability to save sessions means the consumer – or their adviser - can easily review their goals at any time.

A Smart Calculator enables an adviser to work far more efficiently and effectively with a client because there is only one common piece of technology - with one set of underlying assumptions - being used by both parties. In other words, they're both on the same page.

This means that the cost of providing advice is significantly reduced. It also means greater engagement and genuine education for the consumer.

Conclusion

This paper has argued that the answer to many of the issues currently perplexing the financial services industry lies in the adoption of smart, intuitive, interactive technology. The benefits to the sector, and to the mass-market of largely disengaged consumers across Australia are many.

This includes provision of simple education and genuine engagement at no extra cost.

The lack of price pressure at the beginning of the planning process is another significant benefit. Clients would no longer need to incur high fees for service, or hidden commissions, as the self-starting technology does a great deal of the early work itself – on behalf of advisers.

The ability to provide affordable advice that this technology creates means that planners will reap the benefits of being able to service more clients without sacrificing their profits.

There are flow-on benefits to institutions that provide banking and mortgage services, as the technology will enable them to leverage their relationship with their massive client bases more cost effectively through direct marketing, rather than expensive website promotions. This means not only retaining valuable customers but also gaining value from those who are currently dormant or disengaged.

There are also benefits to the broader economy. As the population ages, putting upward pressure on government assistance, we need more people to be financially self-sufficient in retirement. Effectively engaging with the population now, while providing access to affordable advice is critical to the government's self-sufficiency strategy.

Ultimately Smart Calculators will be available to everyone in the financial services industry. However, those who exploit the benefits they offer best - to engage with existing or prospective clients - stand to benefit the most.