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Fundamental Changes in Personal Financial Advice

Customer Centricity in Financial Services



Bas Schuurmans

Fundamental Changes in Personal Financial Advice

Customer Centricity in Financial Services

Bas Schuurmans

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Customer Centricity in Financial Services

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PREFACE

The motivation for writing this dissertation is based on my professional and private life experiences in financial services.

In my professional experience, as a consultant to banks and insurance companies, I have the privilege to be at the forefront of change in the distribution of financial services. When I began my career thirty years ago, the main channel for financial services delivery was the direct personal contact between client and adviser. However, the last several decades have seen an explosion of innovative distribution channels offered by financial institutions to their customers; channels such as the internet, call centers, mobile services, automated teller machines, and interactive television, to name just a few. In addition, many new ways for clients to connect to their financial services provider have become available: E-mail, live chat, video link, social media, and virtual communities. These new delivery channels added to costs and complexity. As a result, the mix of channels does not fully achieve the expected customer satisfaction, customer retention and increased revenue. Being passionate about this subject, I am always looking for the distribution model that is the most effective and the most cost efficient for both the customer and the financial services provider.

In private life, I have been approached by relatives, friends, acquaintances, and colleagues for assistance on personal financial issues ranging from loans, investments, mortgages and taxes to retirement and estate planning. There is a growing need for sound financial advice. The financial crisis has added an additional dimension: Implicit and sometimes explicit complaints regarding the advice received from professional financial service providers.

The combination of my professional and private life experiences in the area of financial advice sparked the idea that the delivery of personal financial advice, not just for the happy few but for all customer segments, could well be the most effective distribution model for financial institutions. By delivering personal financial advice, financial service providers should be able to support a lifelong mutually beneficial relationship with their customers.

ACKNOWLEDGEMENTS

This dissertation would never have seen the light of day without the collaboration with esteemed clients, expert colleagues and world class business partners, on challenging assignments in the financial services industry. Thank you for your trust, support and comradeship.

I gladly acknowledge that Capgemini's Global Financial Services Sector's management gave me an excellent opportunity to combine work and research.

A special thanks to the students Hannie Vos and Jan Dlabac, who worked tirelessly, supporting me in the detailed studies on risk profiles and the personal financial advice process.

I am grateful for the support of my lecturers and co-students at the Erasmus Institute for Financial Planning. One of these lecturers, Professor Fred van Raaij, became the adviser of this dissertation and I sincerely appreciate his wise, acute and patient guidance in the preparation and execution of this study.

In the course of the finalization of this study I have received valuable advice from Professor Sylvester Eijffinger, Professor Paul Schnabel and Professor Henriëtte Prast.

I would like to thank Professor Johan Graafland, Professor Klaas Knot, dr. René Matthijsse and Professor Theo Poiesz for their comments and encouragement in substantiating the fundamental changes in personal financial advice.

I am honored that Professor Dietvorst accepted the invitation to review the manuscript and participate as an opponent.

I am forever indebted to my family and friends, who have supported me along the way, while I have continuously misused them as a consumer panel.

I dedicate this study to my sweet inspiration Yvonne and our daughter Daniëlle.

Bas Schuurmans
Bilthoven,
March, 2011

CHAPTER 1



INTRODUCTION

PERSONAL FINANCIAL ADVICE

NEED FOR CHANGE IN PERSONAL FINANCIAL ADVICE

SCOPE

STRUCTURE OF THIS DISSERTATION

1. INTRODUCTION

In this chapter, the urgent need for fundamental change in personal financial advice will be addressed. If a crisis is an opportunity, the financial services sector faces one of the biggest opportunities ever. The financial crisis that hit the world in 2008 underlined the urgency for change in the way financial services are delivered. Customers need better support in making sound financial decisions. Financial service providers need to regain public trust, retain customers and grow revenues profitability. Regulators have to find better ways to prevent poor practices in financial advice. Society as a whole must do everything to minimize the effects of the crisis and prevent a similar crisis from happening again.

In this chapter the central topic of this dissertation, personal financial advice, will be defined. Next, the urgent need for fundamental change in personal financial advice will be described from the perspective of the customer, the financial service provider, the regulators and society as a whole. In this chapter the scope of this study, the problem statement and the central research question will be described. Furthermore, the structure of this dissertation will be presented.

1.1 PERSONAL FINANCIAL ADVICE

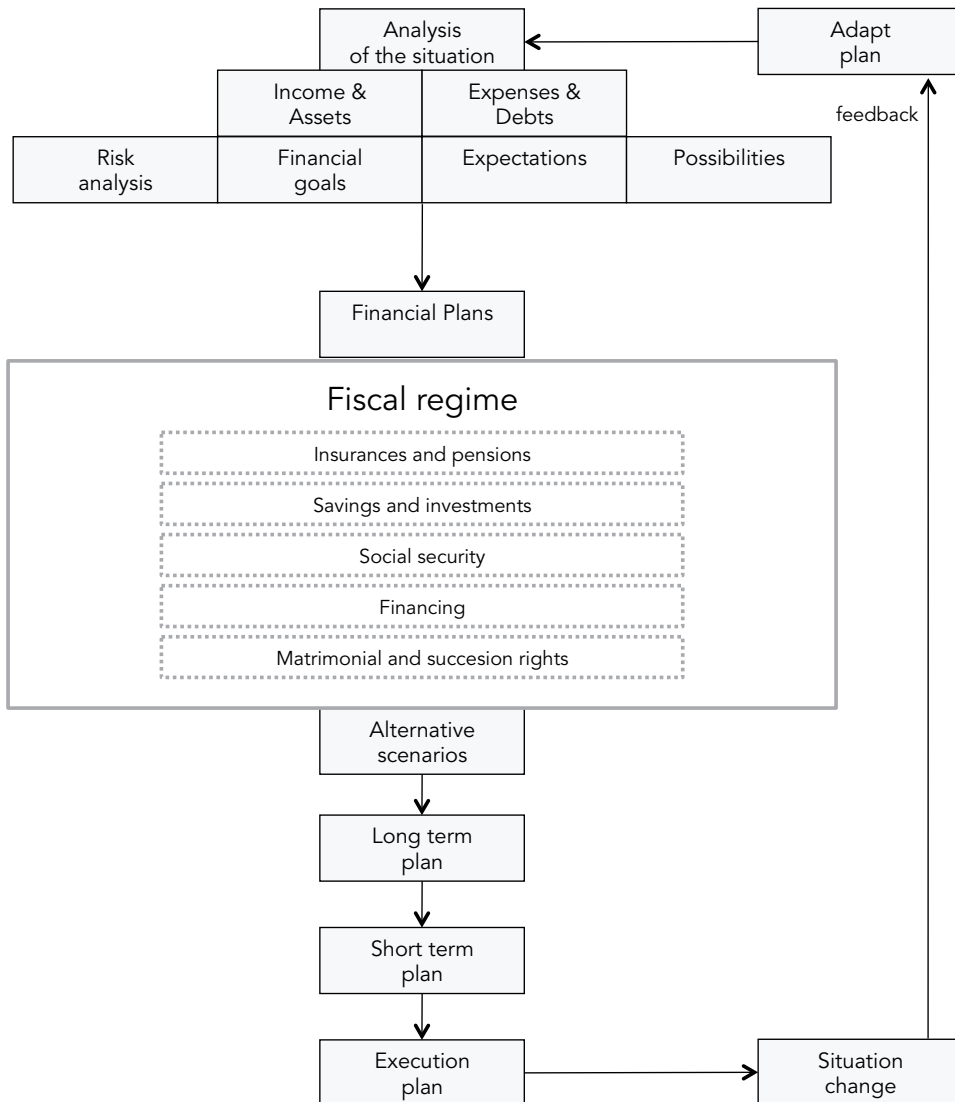
Personal financial advice is an ill-defined concept. In this section we will capture the characteristics of personal financial advice from two perspectives: The definition used in the discipline of personal financial planning and the description of personal financial advice in customer care regulations. On this basis a definition of personal financial advice is presented that will be used in this study.

1.1.1 PERSONAL FINANCIAL PLANNING

In the discipline of personal financial planning, financial planning is defined as: "Financial planning is the process that leads to the preparation, the formulation and the execution of a structured financial plan" (Van den Berg & De Looze, 2007). In this definition of financial planning, the process does not stop after the formulation of the plan, but includes

the execution of the plan. The monitoring and control of the plan is not included in the definition. However, in Figure 1.1, Van den Berg and De Looze include a feedback loop in their process model, that starts when the situation changes and leads to an adaptation of the plan.

Figure 1.1: The Financial Planning Process according to Van den Berg & De Looze, 2007



The process as depicted in Figure 1.1 commences with the analysis of the current financial situation of a household or an individual, including income and assets, expenses and debts, risks, goals, expectations and possibilities. Next, financial plans are formulated taking the fiscal regime into account and specifying insurance and pension plans, saving and investment plans, social security provisions, mortgage, and loans as well as matrimonial and succession rights. Alternative scenarios are considered and the consequences for the short and long term are specified. The selected plan is executed, although over time the situation may alter and accordingly, modifications are made to the original plan. Thus, financial planning is a continuous process of planning, executing, monitoring, and control. This process requires a substantial amount of time, expertise and accuracy. Therefore Van den Berg and De Looze (2007) imply that financial planning is especially relevant for the wealthy individual.

1.1.2 CUSTOMER CARE REGULATIONS

The Dutch law on customer care regulations, “Wet Financieel Toezicht” (Wft.), leaves it to the financial service providers to give their own interpretation on what is good advice. However, the Wft requires that the financial service provider:

- Takes into account the relevant aspects in the client profile (4:23, section 1, b)
- Explains considerations underlying the advice delivered (4:23, section 1, c)
- Informs the customer, prior to contracting, in such a way that the client can adequately evaluate the product offered (4:20, section 1)
- Makes sure that information provided is correct, understandable and not misleading (4:19, section 2).

Reports published by the Dutch Regulatory Authority, Autoriteit Financiële Markten (AFM), specify in more detail what personal financial advice encompasses:

- Reports on mortgage advice (AFM, 2007, 2010b, c, d, e, and f)
- Report on advice on insurances combined with an investment product (AFM, 2008)
- Report on investment advice (AFM, 2009).

In these reports, examples of what the AFM considers to be excellent, good and insufficient advice are described. A twelve step approach for excellent advice is presented in the report on mortgage advice (AFM, 2007):

1. Collect all relevant customer information in order to obtain a good picture of the customer’s financial capabilities.

2. Check the correctness and completeness of the information, discussing various scenarios for the different life stages.
3. Prioritize customer goals and financial needs informing the customer on alternative product families that match these needs.
4. Check whether the customer is aware of the alternative scenarios, the underlying assumptions and the decisions to be made.
5. Present a quantitative analysis of the financial solution that matches customer preferences and points of departure.
6. Verify with the customer that all financial consequences are clear and understood.
7. Check whether the solution presented (still) fits the customer profile.
8. Check the correctness of the calculations and assumptions, preferably on the basis of the four eyes principle.
9. Present the financial advice and explain to customer how this advice meets the customer profile.
10. Compile a (paper) file with the customer profile, financial advice, products offered, underlying information and the customer's decision.
11. Present a hardcopy to the customer including the analysis of the risks, the quantitative analysis, the advice and product information.
12. The client should have ample time to read the proposal and to form an opinion about the advice delivered.

Here the AFM restricts the advice to be a discrete process, with a clear cut end: A financial advice document. After executing the decisions made, a customer, however, would expect a financial adviser to monitor progress and advise on necessary changes. In the report on investment advice (AFM, 2009), the AFM included an additional step for monitoring and rebalancing.

1.1.3 DEFINING PERSONAL FINANCIAL ADVICE

The twelve-step process for good advice as described by the AFM comes very close to the process model of financial planning as described by Van den Berg & De Looze (2007). This can be expected since the advice on the financial products studied by the AFM (mortgages, life insurance and investments), has long-term effects on income, expenses, assets and liabilities.

In this dissertation the focus is on personal financial advice, combining the twelve-step approach of the AFM and the financial planning process as described by Van den Berg and De Looze (2007). In this dissertation personal financial advice is defined as follows:

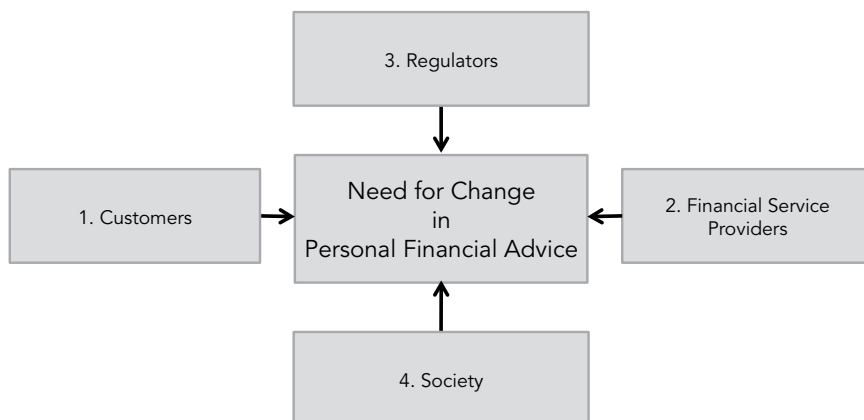
Personal financial advice is the continuous process of planning, executing, monitoring, and controlling income, expenses, assets, and liabilities, while managing financial risks, providing support for changing goals, needs, and capabilities of customers in subsequent life stages.

An elaboration on the personal financial advice process can be found in Appendix A: Personal Financial Advice.

1.2 NEED FOR CHANGE IN PERSONAL FINANCIAL ADVICE

The need for change in personal financial advice results from important developments that occur in the situations of the customer, the financial service providers, the regulators, and in society (see Figure 1.2). These developments will be described in this section.

Figure 1.2: The Need for Change in Personal Financial Advice



1.2.1 CUSTOMERS

There is a growing customer need for sound personal financial advice as a result of the following developments: Increasing personal financial risks and changes in work patterns and lifestyles. Moreover, the recent financial crisis has shown that customers suffered serious financial consequences due to poor financial advice.

1.2.1.1 Increasing Personal Financial Risks

In the first half of the 20th century a social security system has gradually been introduced in The Netherlands. This system collectively took care of financial consequences resulting from illness, disability to work, unemployment, early death, and old age. Additionally an extensive corporate package was available for employees, including a defined benefit pension plan. The Dutch social and corporate benefits paid on average 70% of the last received income, including compensation for inflation and average wealth growth. The welfare state took care of everybody, from cradle to grave.

In the last decennia of the 20th century and continuing today, the social and corporate benefits have been reduced and sometimes even abolished. Social security now leaves huge gaps between the last received income and the benefits available in the event of disability to work, unemployment, untimely death of partner, and old age (Van den Berg & Verhoef, 2006; Verhoef, 2006). A recent study of 499 individuals who lost their job showed, that 50% were not aware of the financial consequences of unemployment, 75% were faced with arrears of payments during unemployment, while 14 - 20% lived below poverty level (Nibud & CentiQ, 2010).

The defined benefit plans based on 70% of last received income have been reduced to a 70% of average income, without guaranteed compensation for inflation. Other plans have changed into defined contribution, which do not guarantee benefits at all. A committee studying corporate pensions in The Netherlands concludes that demographic developments (people living longer) and economic developments (low interest rates and turbulent markets) make it impossible for corporate pensions to fulfill the promise of defined benefits (Commissie Goudswaard, 2010). This development is not only taking place in The Netherlands. A recent report of HSBC has shown that state pensions and occupational pension plans have been reduced all over the world, which creates a need for additional individual pension plans. In view of the current financial crisis the pension gap is widening even more (Bannister & Twigg, 2009). These developments lead to greater financial risks for individuals and households, resulting in a need for better advice on financial decisions.

There was a time when personal financial advice was required only by the wealthy who needed to decide on excess funds. Now, everyone needs a financial plan to cope with substantial financial risks and to reach goals in life.

1.2.1.2 Changes in Work Patterns and Lifestyle

Another reason why there is a growing need for personal financial advice, is the change in work patterns and lifestyle. These changes add new financial goals and risks. There was a time, not so long ago, when people worked full time, 40 years for the same employer and most marriages lasted a lifetime. Presently, people change jobs on average every seven years, work part-time for several years, work abroad for a number of years, go through a divorce (one third of all marriages end in a divorce), will be temporarily out of a job because of a sabbatical, parental leave or unemployment and may start their own business. These discontinuities in employment and partner relationships have a detrimental impact on pension income and on social benefits.

The AFM (2010a) published a report that many people expecting a pension of 70% of last received income will be rudely disappointed. The following groups are in an especially precarious situation:

- Entrepreneurs often do not have a decent pension plan.
- People who lived abroad only receive a partial state pension.
- Employees with a pension plan based on defined contribution.
- Employees on a fast career track and a pension based on average income.
- Divorcees with ex-partners entitled to a part of their pension income.
- People with an unpaid mortgage because interest payments will cease to be deductible after 30 years.

People who have changed jobs frequently, worked part-time for a while, have been out of a job for a period of time and/or divorced, will find their pension income reduced well below 50% of the last received income before retirement.

1.2.1.3 Conclusion on Consumer Needs

The need for personal financial advice has grown because of a serious decline in social security and collective employee benefits. Moreover, the changes in modern lifestyle and work can have a cumulative negative effect on the level of the social and corporate benefits to which people are entitled. As a result, all people need a financial plan to deal with the increased financial risks and still be able to attain their goals in life.

At present many households run the risk of a sharp decrease of income due to disability to work, unemployment, loss of partner and retirement. In these cases immediate and painful consequences will take place, such as foreclosure of the house and debt accumulation. In 2009 the number of people who needed to be supported in restructuring their debt escalated by 20% to 53,250 individuals, while the average amount of debt increased by

10% to € 33,700. Supporting these cases required an additional budget of 130 million euro from the Ministry of Social Affairs (NVVK, 2010). These numbers are expected to rise in 2010.

1.2.2 FINANCIAL SERVICE PROVIDERS

The necessity for financial service providers to deliver improved personal financial advice to their clients originates from the need to regain public trust, face increased competition and to comply with new customer care regulations.

1.2.2.1 Need to Regain Trust

After the recent financial crisis it became clear that financial service providers have not always advised financial products that, at least in hindsight, were in the best interest of their customers. This has not only been the case in the United States with the subprime loans, but in The Netherlands as well. A range of products have caused considerable debate and sometimes even outrage:

- “Winstverdubbelers” (‘profit multipliers’): A combination of a loan and an investment product, with a leverage that can deliver high yields or leave the customer in debt.
- “Woekerpolissen” (‘usury policies’): Insurance products often with an investment component and a fee and cost structure that may surpass 80% of the premium paid by customers.
- “Top mortgages”: Mortgages of over 150% of the market value of the house.
- “Savings/investment mortgages”: Mortgages in combination with insurance, savings and investment products that cannibalize the savings balance if returns on investments fall short of the annual premium.
- “Budget mortgage”: A mortgage with an especially low interest rate during the first 5 years and a higher interest rate in the years thereafter.
- “Surplus value mortgage”: An additional mortgage to invest in high yield funds in order to reduce monthly expenses. If, however, returns on investments falter, these products lead to higher monthly costs and an additional mortgage repayment.
- Mismatched investment portfolios: Pensioners requiring minimum risks were offered investment portfolios including corporate bonds that decreased 50% in value.
- Insurance policies covering mortgage payments in case of disability to work and unemployment, which did not pay out when needed.
- Mortgages with variable interest rates that go up if interest rates rise, but remain high when interest rates drop.

The negative publicity on financial services and products has had a devastating effect on the trust in financial institutions.

In a 2008 study by CentiQ, it was shown that more than 55% in a sample of 4,280 Dutch consumers had little or no trust in financial advisers (Antonides, De Groot & Van Raaij, 2008). Customers are looking for objective and reliable information about financial products which meet their real financial needs.

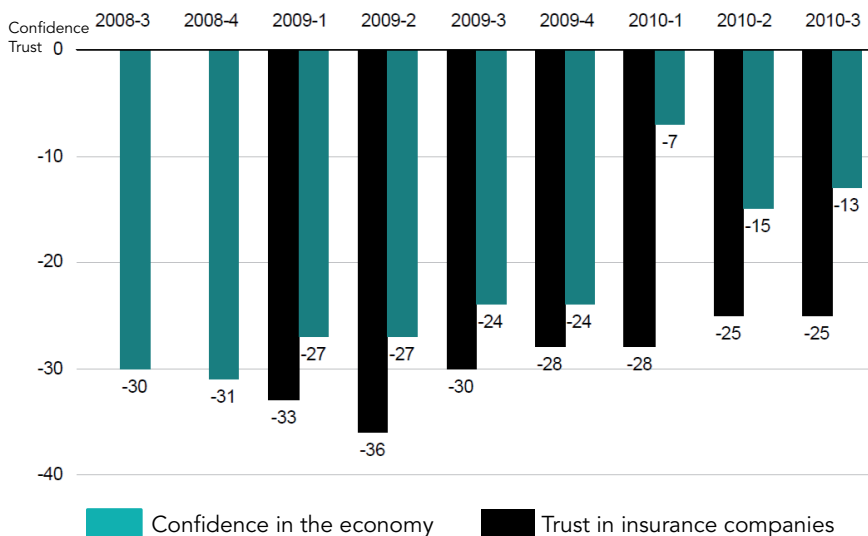
According to a report from Ernst & Young (2010), the financial crisis has irreparably damaged the trust in banks, with 40% of the Dutch public dissatisfied with the service of their home bank, which is well above the European average of 24% dissatisfaction.

The 2010 Edelman Trust Barometer for The Netherlands shows that the trust in banks has dropped by 25%, while confidence in business was already growing from 60% in 2009 to 75% in 2010 (Edelman, 2010).

The association of insurance companies in The Netherlands monitors customer trust in insurance companies on a quarterly basis, as compared to public confidence in the economy. Customer trust in insurance companies was at its lowest in the second quarter of 2009 (minus 36), recovering only slowly, compared to public confidence in the economy (see Figure 1.3). However, it could be argued that trust (in insurance companies) and confidence (in the economy) are different concepts that should not be compared on the same scale.

Figure 1.3: Consumer Trust in Insurance Companies

Source: Centrum voor Verzekeringsstatistiek (CVS) and Centraal Bureau voor de Statistiek (CBS)



The financial services sector organized several initiatives to regain trust.

An independent committee of bankers stated that banks should once again put the customer's interest first (Adviescommissie Toekomst Banken, 2009). This committee introduced a moral ethical statement for all board members to sign. In this statement, the banker declares that in the appraisal of the interests of all parties involved, the interest of the customer is the central focus.

The insurance companies delivered a joint website in which they stated to renew themselves by making sure that products and processes match customer expectations, by proactively solving problems that may arise and by establishing common values (www.verzekeraarsvernieuwen.nl).

The independent financial agents presented a report in which they take a firm stand to put the clients' interest first (Adfiz, 2010).

These intentions are all good initiatives to regain trust, however, the public remains skeptical. Research by SEO concludes, in a report on the evaluation of the fee structure in the insurance sector, that the traditional character of the financial sector prevents a rapid and easy compliance to customer care regulations (SEO, 2010).

In addition to these good intentions, customers need proof that the products that are proposed, are in their best interest. Through personal financial advice, banks, insurance companies, and independent financial agents can show customers the benefits of the products offered and how they match customers' goals and needs.

1.2.2.2 Increased Competition

In the last decennia, competition in the financial services sector has intensified rapidly. This increased competition is the result of an infusion of new generation banking and insurance players:

- Foreign banks and insurance companies that set up new operations (e.g., Bank of Scotland, former Icesave, and Banco Santander were introduced in The Netherlands).
- Greenfield initiatives set up by large financial service providers in their own home market (e.g., MoneyYou of ABN AMRO, former Bizner of Rabobank, Ditzo of ASR, and InShared of Achmea).
- Initiatives from outside the financial services sector (e.g., De Bijenkorf, Shell, Wehkamp, Hema, and Kruidvat).
- Independent new initiatives (e.g., Binck Bank, former DSB bank, Ohpen, and Brand New Day).

These new players in the financial services market all have one element in common: They start off with a single product line of competitively priced and simple products with basic conditions. Their success is based on streamlined business processes to support clients, primarily through the internet and call centers. New competitors in addition to those already mentioned, from sectors such as telecom, utility, retail, and IT, may still enter the marketplace. For instance, Google already possesses a banking license in many countries. As a consequence, the margins on financial products will remain under constant pressure.

Consumers are supported in their quest for the best deal by comparison sites on the internet, such as Independer in The Netherlands and Moneysupermarket in the UK. This is especially bad news for the established financial service providers who depend on a business model delivering the full spectrum of financial services, while customers are now cherry picking products from the internet. Because of their large overhead, the well established financial service providers will not be able to compete with the new entrants on price and conditions. Cherry picking may lead to a new form of push marketing and a lack of integration of products at the customer level. Cherry picking does not necessarily lead to the optimal combination of financial products that match customers' financial goals and needs. For the well established financial service providers, personal financial advice is an effective way to show customers the benefit of their full service portfolio.

1.2.2.3 Customer Care Regulations

New customer care regulations, like "Wet Financieel Toezicht" (Wft) in The Netherlands and MiFID (Markets in Financial Instruments Directive) internationally, extensively increased the operational and reputational risks for financial service providers. More regulations are introduced both nationally and internationally in an effort to further improve the quality of financial advice.

Compliance to customer care regulations is required at the risk of bad press and legal actions. By offering personal financial advice, compliance with customer care regulations can be ensured.

1.2.2.4 Conclusion on Financial Service Providers Needs

Financial service providers need to regain public trust, beat competition, and comply with customer care regulations, while growing revenues profitably.

By offering personal financial advice, financial service providers will be able to show customers the financial benefits of an integrated set of financial products, in compliance

with customer care regulations, delivering a better result than a set of “cherry picked” products from the internet.

If personal financial advice is not offered, the intentions for improved customer centricity cannot be substantiated by showing how the products offered benefit customers and match their needs. The public may turn to other providers to assist in selecting the products required and financial service providers risk to lose direct customer contacts. This process of disintermediation has already taken place in other sectors like travel, where new online travel agencies have taken over the role of the traditional travel agency.

1.2.3 IMPROVED CONTROLS FOR THE REGULATOR

The Dutch regulator Autoriteit Financiële Markten (AFM), established in 2002, monitors compliance of customer care regulations of all parties in the financial services market. The AFM has produced a substantial number of reports and initiatives to improve the quality of financial advice. The AFM is well aware that over-regulation may result in contra-productive effects in the quality of advice delivered.

In Australia, for instance, customers are required to sign an extensive compliancy document, before they can get advice on a savings account. This document alone results in additional questions and so, more time is required from advisers, while customers lose interest. Some of the large banks in the UK, confronted with the growing number of customer care regulations, decided to stop delivering personal financial advice and only deliver information on products. As a result, many customers learn the importance of financial planning the hard way, when it is too late to compensate for mistakes made in the past.

The AFM not only contributes to improve the standards on financial advice, but also supervises financial services providers. When financial service providers violate customer care regulations, the AFM takes action. These actions may include (conditional) fines, publication on the AFM website or a withdrawal of the financial services provider’s license. Over the past three years, the total number of actions taken increased rapidly from 152 in 2007 to 454 in 2009 (AFM, 2010g). Moreover, in 2009 maximum fines have been increased to 4 million euro and 8 million euro in case of recurrence. However, there is a long lead-time of two to three years, between the moment of the offence and the final sanction.

The increasing number and level of sanctions have not been able to prevent poor practices from happening. With the recurrence of complaints about practices in the financial services industry, the public indignation shifts from the offenders to the regulators as, among others, in the evaluation of Icesave and DSB Bank (Commissie De Wit, 2010; Commissie Scheltema, 2010).

Improved supervision is required. Ideally, the AFM should be able to ensure compliance to customer care regulations ex-ante, rather than having to intervene afterwards.

1.2.4 RELEVANCE FOR SOCIETY

If citizens are not well informed about the serious financial risks they are exposed to, there is little chance that they will take appropriate action. As a result, a substantial number of people will end up in financial distress, requiring society to pay for social welfare, healthcare, child support and more. This grim outlook of a society turning poor must be averted.

The financial crisis has shown that unsuitable financial advice, does not only lead to serious financial consequences for clients, but may also result in bankruptcy of financial institutions, a destabilization of the financial markets, and an economic recession.

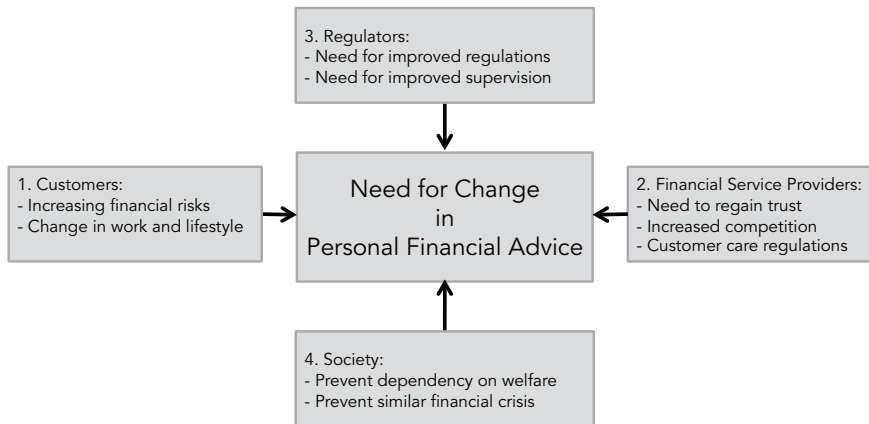
In The Netherlands the government provided a 200 billion euro guarantee for financial institutions, which is around 40% of GDP (DNB, 2009).

For society as a whole, it is essential that citizens are well informed about their financial situation, so that they can take necessary steps to manage their financial risks and still reach their goals in life. Moreover, it is important that governments take all necessary actions to prevent a similar crisis from happening again.

1.2.5 CONCLUSIONS ON THE NEED FOR CHANGE IN PERSONAL FINANCIAL ADVICE

Customers need personal financial advice because they face financial risks that are no longer covered by collective insurances, while the modern work patterns and lifestyle add new financial goals and risks. For financial service providers, the delivery of personal financial advice can assist to regain trust, beat competition, and comply with customer care regulations. For the AFM, the delivery of personal financial advice by financial service providers may help ensure compliance to customer care regulations. For society as a whole, personal financial advice helps to prevent citizens from getting into financial distress and from dependency on social welfare. Moreover, good personal financial advice can help prevent a similar financial crisis. To be able to meet these expectations, personal financial advice needs to be changed from an exclusive service to the wealthy individual, to one that is available to and affordable for all individuals and households. The need for change in personal financial advice is summarized in Figure 1.4.

Figure 1.4: The Need for Change in Personal Financial Advice



1.3 SCOPE

This dissertation focuses on personal financial advice in The Netherlands.

Even though globalization is forcing industries to abide by worldwide standards, also in the financial services sector, there are still major differences even within Europe in the domain of personal financial planning. These are the result of differences in culture, organization, social security, corporate benefits, legislation, taxation, financial products, and financial needs. These differences are reflected in the personal financial advice practices in each country.

Nevertheless, where relevant for the Dutch practice, global best practices will be introduced. The interest of this dissertation for other countries will be left for others to determine. Several countries are going through a comparable turmoil and have shown an interest in the concepts and implementations presented here.

On the basis of the relationships between customers, financial service providers, regulators, and society, the following **problem statement** is derived:

Continuation of poor practices in personal financial advice leads to financial distress for customers and a loss of trust in financial service providers as well as in regulators. This in turn may lead to instability of financial service providers and the financial services sector as a whole, while the government may not be able to bail out the financial sector again.

This grim perspective should be avoided by all parties involved and therefore the **goal** of this dissertation is described as follows:

To provide policy makers and managers with a theoretically and empirically supported model of personal financial advice, preventing the continuation of poor practices in personal financial advice, which may lead to serious financial problems for customers, financial service providers, the financial services sector, and the government.

As a result, the **central research question** focuses on the development of a model on personal financial advice which meets the following standards:

How can personal financial advice be delivered in such a way that it matches the goals, needs, and financial capabilities of customers now and in the future, complies with customer care regulations, and meets the needs of financial service providers to retain customers and grow revenues profitably?

1.4 STRUCTURE OF THIS DISSERTATION

Now that personal financial advice has been defined, the need for change has been presented, and the scope has been described, the structure of this dissertation will be presented.

In Chapter 2 the research methodology used in this dissertation will be described. Alternative approaches have been considered and a combination of research strategies has been selected with action research and case studies as important components. Furthermore, taxiology delivered the insight to include a value statement.

In Chapter 3 the focus is on a diagnosis of the real-life practice of personal financial advice. The practice of personal financial advice will be described for three customer segments, the top, middle, and lower segment in terms of wealth and income. A detailed analysis is delivered for the middle segment. Moreover, the products advised and delivered will be evaluated. The gap between the concept of personal financial advice as described in Chapter 1 and the real-life practice in personal financial advice will become apparent. This underlines the need for fundamental change in the practice of personal financial advice.

In Chapter 4 action planning will be supported by a normative framework, describing fundamental changes in personal financial advice. This framework is based on theories and models regarding process redesign, consumer behavior, behavioral finance, marketing, business ethics, and information technology.

In Chapter 5 the normative framework is put to the test in a series of case studies which are changing the way financial advice is delivered in real-life. The case studies cover various aspects of the personal financial advice process, including pension planning, investment advice, risk profiling, and a modular approach to personal financial advice. At the

end of this chapter, a comparison is made between the case studies and the normative framework developed in Chapter 4.

In Chapter 6, the spotlight is on the implementation aspects of the changes required in personal financial advice. Having a clear vision and a concrete framework of how personal financial advice can work effectively, is only the beginning of a change process. Alternative change strategies will be presented and combined with the experience in real-life projects.

In Chapter 7, recommendations are presented to the financial service providers, the regulators, and the government.

In Chapter 8, a summary is presented with the highlights of the studies, the recommendations, and the consequences for each of the parties involved in personal financial advice. Here, the central research question will be revisited in order to formulate the final conclusion. Moreover, the contribution to theory is presented and suggestions will be made for future research.

CHAPTER 2



RESEARCH METHODS

PRELIMINARY STUDIES

RESEARCH DESIGN

ACTION RESEARCH

CASE STUDIES

DEVELOPMENT OF THE RESEARCH PLAN

AXIOLOGY

EVALUATING THE RESEARCH DESIGN

CONCLUSIONS ON METHODS

2. RESEARCH METHODS

In this chapter, the research methods are presented, which were used to answer the central research question, described in the previous chapter.

The first paragraph summarizes the preliminary studies on financial services distribution conducted between 2003 and 2008.

The second paragraph focuses on the research design. On the basis of an overview of quantitative and qualitative research methods, a mixed method approach was selected to be most appropriate in answering the central research question. Paragraph 3 and 4 capture the highlights of the research methods selected: action research and case studies. The fifth paragraph describes how the research methods were applied in this study, presenting the original research plan and the way the plan evolved over time. The sixth paragraph describes axiology and a value statement, since the research process, from the selection of the subject to the interpretation of results, is influenced by values. Paragraph 7 describes an evaluation of the research approach, delivered in 2010 and the final paragraph captures the conclusion on the research methods used.

2.1 PRELIMINARY STUDIES

As a consultant for financial service providers and as a master student in Personal Financial Planning, a series of preliminary studies was conducted on the subject of financial services distribution, in the period from 2003 to 2008. During this period several publications captured the evolving issues of that time.

Publications on multi-channel distribution have underlined the need for an integrated distribution platform to support customers who prefer the ease of internet, in combination with other channels (Schuurmans, 2003). Since each of the distribution channels was often managed by separate channel managers and rewarded for sales made through each of the channels, a "Battle of the Channels" resulted, if not properly managed (Schuurmans & Estejee, 2004). The concept of assisted self-service was introduced as an effective way to prevent a battle between channels and as the potentially dominant distribution model in financial services for the future (Schuurmans, 2004).

Publications on personal financial advice focused on the need to change investment advice processes as a result of changed customer preferences, increased competition, new regulations, and the availability of new technology (Schuurmans & Bloemer, 2005;

Schuurmans & Hendriks, 2006). The necessity and desirability of a new way of personal financial planning to meet customer needs, comply to customer care regulations, and beat competition was presented (Schuurmans, Beumer & Nieuwenhuizen, 2005; Schuurmans, Wassenaar, Hoyng, Stubbe, Vooys & Verhaar, 2005). Since many financial institutions were hesitant to adopt a new way of personal financial planning, financial service providers were missing out on big opportunities (Schuurmans, 2006).

2.2 RESEARCH DESIGN

In business research methodology, the debate whether quantitative or qualitative research designs should be preferred, resulted in the stance that mixed methods are achievable and possibly highly appropriate (Bryman & Bell, 2003; Saunders, Lewis & Thornhill, 2007; Cresswell, 2009).

Bryman & Bell (2003) describe the quantitative, qualitative, and mixed research designs. In their view, the quantitative research design has incorporated the practices and norms of the physics model and of positivism in particular, using primarily a deductive approach, in which theory and models are tested through observations and findings. The qualitative research design, according to Bryman & Bell (2003), has rejected the practices and norms of the physicist and positivistic model, predominantly emphasizing an inductive approach, where theory and models are the outcome of research. The divide between quantitative and qualitative research design has been described as two extremes here, while there are quantitative research methods that can also support an explorative study and qualitative research methods that can be used to test a model through observations and findings. Bryman & Bell (2003) note that the mixed research design is becoming far more common because of a growing preparedness to think of research methods as types of techniques of data collection and/or analysis.

Saunders et al. (2007) in their overview of research methods for business studies, promote the use of mixed (quantitative and qualitative) methods because different methods can be used for different purposes in a study and mixed methods enable triangulation, validating results of quantitative methods with qualitative methods, and vice versa. Saunders et al. (2007) focus on which research strategy will best accommodate the research question. Saunders et al. (2007) describe the following alternative research strategies, stating that these research strategies are not mutually exclusive:

- Experiment; studying causal links in a strictly controlled environment.
- Survey; collecting data from a sample of the population.

- Case study; study of a contemporary phenomenon in its real-life context.
- Action research; focused on the resolution of an organizational issue.
- Grounded theory; starting with data collection, in order to build a theory.
- Ethnography; description and explanation of the social world.
- Archival research; using administrative records and documents.

Experiments and surveys are quantitative research methods; action research, grounded theory, and archival research may be quantitative or qualitative; case studies and ethnography are examples of qualitative research methods.

In this dissertation, a combination of research methods is selected to best answer the central research question. The central research question in this dissertation focuses on the study of a contemporary phenomenon (personal financial advice) in its real-life context (of customers, financial service providers, and regulators), while trying to find a solution for an organizational issue (how to deliver personal financial advice in such a way that the goals and needs are met of all parties involved). Therefore, a combination of action research and case studies was selected as the main research strategy.

2.3 ACTION RESEARCH

Lewin (1946) first introduced the term action research. He described action research as a comparative research on social action and research leading to social action, that uses a spiral of steps, each of which is composed of a circle of planning, action, and fact finding. In trying to understand organizations, Avison et al. (1999) recommend action research because this particular research method is unique in the way it associates research and practice; research informs practice and practice informs research synergistically. Action research combines theory and practice (and researchers and practitioners) through change and reflection in an immediate problem situation within a mutually acceptable ethical framework. Action research is an iterative process involving researchers and practitioners acting together on a particular cycle of activities, including problem diagnosis, action intervention, and reflective learning.

Saunders, et al. (2007) describe the characteristics of action research as follows:

- Research in action and not about action: research in cooperation with those involved.
- A collaborative democratic partnership between practitioners and researchers.
- An iterative nature of the research process in diagnosing, planning, taking action, and evaluating.

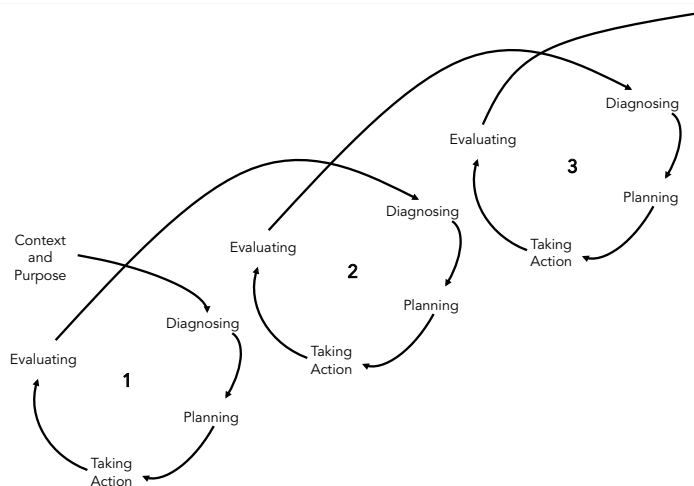
Action research, according to Saunders et al. (2007), differs from other research strategies in its explicit focus on action, in particular, regarding the promotion of change within the organization. It is therefore especially useful for “how” questions.

The central research question in this dissertation is a typical “how” question, focused on change of personal financial advice within an organization.

Action research is expected to deliver implications beyond the immediate project. Through the iterations, new insights are continuously challenged and evaluated.

In Figure 2.1, the iterative nature of the action research process is depicted as presented by Saunders et al. (2007).

Figure 2.1: The Action Research Spiral
According to Saunders, Lewis, Thornhill (2007)

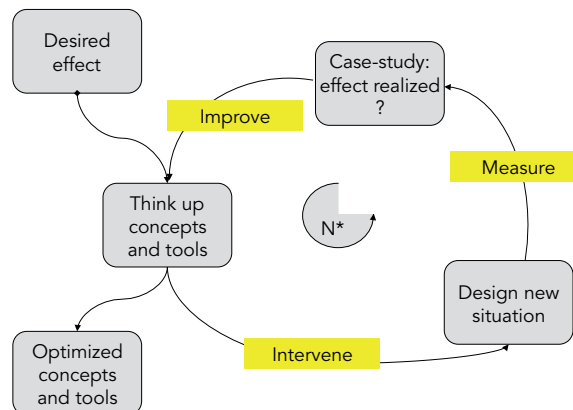


The chapters in this dissertation follow the action research spiral. After the context and purpose of this dissertation have been described in Chapter 1 and the research methods used in Chapter 2, a diagnosis of the problems in personal financial advice is presented in Chapter 3, while a plan for improvements in personal financial advice is described in Chapter 4. In Chapter 5, several case studies are presented, where the suggested improvements have been taken into action and evaluated. On the basis of evaluation, a new question arose on why the proposed improvements, although promising in every respect, have not been implemented on a large scale yet. In Chapter 6, the focus is on the diagnosis of this new question, while in Chapter 7 plans for future action are presented in the conclusions and recommendations.

2.4 CASE STUDIES

Although action research and case studies are distinguished as alternative research strategies (Saunders, Lewis & Thornhill, 2007), the two can be combined as is presented by Avison, Lau, Myers & Nielsen (1999). Avison et al. (1999) promote the use of case studies in the iterative cycles of action research. In this dissertation on personal financial advice, the action research cycle will be used as presented by Avison et al. (1999) and depicted in Figure 2.2 for each of the case studies involved. This action research cycle starts by specifying the desired effect, thinking up concepts and tools followed by validating the concepts in the case studies.

Figure 2.2: Use of Case Studies in Action Research
According to Avison et al. (1999)



Case studies have been selected as most appropriate for research that involves an empirical investigation of a particular contemporary phenomenon within its real-life context (Saunders, Lewis & Thornhill, 2007). Within case studies, the boundaries between the phenomenon being studied and the context within which it is being studied are not clearly evident.

Robert Yin (2003) defines a case study as an empirical inquiry that investigates a contemporary phenomenon in-depth and within its real-life context, especially when the boundaries between the phenomenon and the context are not clearly evident.

In the research on personal financial advice, the influence of context on subject (and vice versa) soon became apparent. Although the focus is on personal financial advice, the way personal financial advice is delivered is strongly influenced by the context in which the financial advice process takes place, i.e., the organization of the financial service

provider. Moreover, the organization of the financial service provider is influenced by its context, the customers, competition, and regulators. Saunders, Lewis and Thornhill (2007) acknowledge the strength of case studies to gain a rich understanding of the context of the research and the processes being enacted. In this dissertation, it became clear that a fundamental change in personal financial advice needs to go hand in hand with the transformation of the organization of the financial service provider, requiring a shift in the context of the financial service providers as well. A client centric organization and improved customer care regulations are needed to deliver personal financial advice to clients effectively and efficiently.

Yin (2003) distinguishes between single and multiple case studies. The rationale for using multiple cases focuses upon the need to establish whether the findings of the first case occur in other cases, supporting the generalization on the basis of findings. For this reason, Yin (2003) argues that multiple case studies may be preferred to a single case study. In this study on personal financial advice, a multiple case study approach was used to be able to support the generalization of conclusions. Findings from one group of case studies, for instance on investment advice, were used and tested in the next group of case studies, for example on personal financial advice.

Several of the case studies have been selected from the experience as a consultant while others have been conducted in the role of researcher. The difference between business research and practice is that a consultant uses theory to contribute to practice, while a scholar contributes to theory on the basis of practice (Bryman and Bell, 2003). The value of both groups is determined in their ability to convince the business community that their findings are relevant and useful.

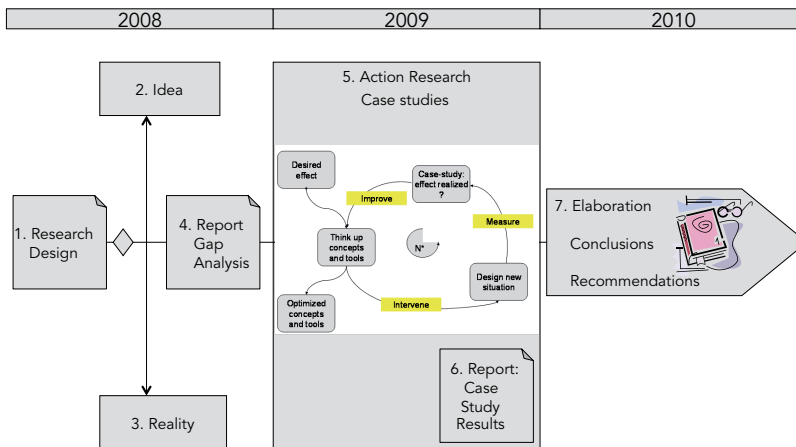
Yin (2003) describes the dilemma of real or anonymous case studies. The most desirable option is to disclose the identities of companies involved in order to support the reliability of the study. However, Yin (2003) acknowledges that there are circumstances in which anonymity is necessary. This usually occurs when a case study describes a controversial topic. The case studies on personal financial advice at financial service providers are of a controversial nature because of the legal and reputational risks involved. Therefore, anonymity has been granted and in return a full access to research data was available.

2.5 DEVELOPMENT OF THE RESEARCH PLAN

After finishing my master thesis on personal financial advice processes in 2007, the idea came up to deliver a more profound study on the fundamental changes required in personal financial advice. In January 2008, the first research design for this study was delivered including a preliminary problem statement, research question, and a research design. A combination of action research and case studies was selected on the basis of a study on research methods in general (Bryman & Bell, 2003; Saunders et al., 2007).

The original research plan, dated January 2008, is depicted in Figure 2.3.

Figure 2.3: Original Research Plan, January 2008



After delivering the research design, a Gap analysis between the theory of personal financial advice and real-life practice was planned for the year 2008. Case studies were planned for 2009, to be conducted with the support of master students. In 2010, the results were expected to be analyzed, elaborated upon, resulting in conclusions and recommendations.

The research was executed almost exactly according to plan, with a few exceptions and additions. In 2008, the first opportunity for a case study at an insurance company arose and since there was no master student immediately available, the required support was delivered by consultants. In the second part of 2008, two other case studies were initiated, defined and decided upon, to be delivered in 2009. End of 2008, two master students were selected with a background that matched the domain of the two case studies, respectively, Economic Psychology from the Tilburg University and Industrial Process

Design from the University of Groningen. These master students were hired as interns. These case studies were delivered according to plan in 2009. In the delivery of each of the case studies, specific research methods were used to support the research in that case including surveys and archival research. During the delivery of the research, the importance of personal values in doing research, especially in this domain, became clear and axiology was added as an important research philosophy. In 2010, the conclusions and recommendations were corroborated in a series of interviews with key stakeholders in the financial services sector, including representatives of banks, insurance companies, pension funds, government agencies, consumer organizations, regulators, and academics. In the final stage, an evaluation of the research design has been included on the basis of more recent research design literature (Cresswell, 2009; Yin, 2009). The reports mentioned in the research design were presented in the form of publications.

The publications that resulted from the study, are the following. The ideas on industrialization of the personal financial advice process were described (Schuurmans, 2008a) and illustrated in the way these ideas could be implemented in a self-service "IKEA Bank" (Schuurmans, 2008b). The gap between the ideas and reality were described in an article on the limitations of information technology to support personal financial planning (Schuurmans and Verbeek, 2009). The need for financial service providers to change into customer centric organizations was captured in an interview with a newspaper (Schuurmans, 2009a) and an article on the "Praise of the follies" in financial services, with suggestions on how to eradicate these follies (Schuurmans, 2009b). The lessons learned from the experiences in online pension planning were captured in an article on the integrated approach of pension advice through aggregation and dissemination of information per household (Schuurmans and Okken, 2010). The lessons learned from the case study on implementation of standardized personal financial advice at the insurance company and a bank, were presented in two articles for independent financial agents (Schuurmans and Van Raaij, 2010) and bankers (Schuurmans, 2010). The lessons learned from the case study on the determination and use of risk profiles are described in an article for investment advisers (Vos, Schuurmans & Van Raaij, 2011). Finally, a new initiative was introduced to support all Dutch citizens with a portal in which they will be able to receive an overview of their present as well as their expected future financial situation. Citizens will be able to share that information with the financial service provider(s) of their choice (Schuurmans & Van Lierop, 2011; Van Lierop & Schuurmans, 2011).

2.6 AXIOLOGY

Axiology is a branch of philosophy that studies judgments of values (Saunders, Lewis & Thornhill, 2007). Opposite to the positivistic approach that attempts to progress knowledge through a value-free approach, axiology suggests that every step in the research process ranging from the selection of the subject to the methods used and the interpretation of results, is influenced by the values of the researcher. Therefore, researchers might as well express their values explicitly in a statement of values. Moreover, researchers might elaborate on the way their values impact their view on the research subject. This seems especially appropriate for the study on personal financial advice, since moral dilemmas are at the heart of personal financial advice. For instance, in delivering personal financial advice, the balance of interests is essential between the customer needs and the compensation for both the adviser and the product provider.

2.6.1 VALUE STATEMENT

The problem with a value statement is that there may exist a huge gap between the value statement and actual behavior. A statement of values, without an indication of how the values are put into practice, is rather noncommittal. In this dissertation, the life and work of Desiderius Erasmus is used as an example of how values are translated into actual behavior. This paragraph is not intended as a theoretical analysis of the work of Erasmus as compared to other thinkers of his time. However, there are interesting similarities between the days of Erasmus and the present day, which make the work of Erasmus especially relevant.

Desiderius Erasmus was born in 1466 or 1469 in Rotterdam and died in Basel in 1536. He was a priest and a critic of the church in the early days of the Reformation (Huizinga, 2001). There are interesting similarities between the position of the church during the Reformation and the position of financial institutions in present days. These similarities are captured in Table 2.1.

There are more similarities between the days of Erasmus and present day, for instance, in the revolutionary development of technology supporting the accelerated dissemination of knowledge: the art of printing in Erasmus' days and the internet today. Erasmus embraced the new technology and restlessly worked on publications (Jensma et al., 1986).

In his most famous book *In Praise of the Folly* Erasmus combined his keen critique with a sense of humor. In the *Colloquia*, he addressed the ethical dilemmas of common people

The church during Reformation	Financial institutions in present day
The highest building seen, entering a city.	The highest building seen, entering a city.
Central role in society; all initiatives, be it public or private, need the support of the church.	Central role in society; all initiatives, be it public or private, need the support of financial institutions.
Indulgences sold, promising a good life after death.	Products, e.g., insurances, sold, promising a good life before death.
The public, credulously believing to go to heaven after paying for an indulgence, even if they continued an immoral lifestyle.	Customers credulously believing they can continue a consumer lifestyle, based on credit or double digit returns.
Excessive accumulation of wealth by popes and (arch) bishops.	Excessive accumulation of wealth by (top) managers.
Reformers mobilizing the public.	The press mobilizing public opinion.
Loss of faith in the church.	Loss of trust in financial institutions.
Secularization and iconoclastic fury.	Customer attrition and bank runs.

Table 2.1: The church during Reformation and financial institutions in the present.

in an anecdotal way, presenting pros and cons, while leaving the final choice to the reader. In *Antibarbari*, he criticized corporal punishment in the school system and propagated a liberal way of teaching. In the *Adagia*, he listed Latin and Greek expressions, for students to express themselves more eloquently. In *De Civilitate*, *De Ratione Studii*, and *Institutio Principis Christiani*, he made concrete suggestions for table manners, pedagogy, and studies for both lay people and future kings.

In *War is Sweet for Those Who Haven't Experienced It* and *The Complaint of Peace* he addressed the kings and popes to cease war.

In the pamphlet *Julius Exclusus e Coelis*, Erasmus, although he declared not to be the author, ridiculed the behavior of pope Julius II as a warmonger, and therefore Saint Peter refused to admit pope Julius through heaven's gate. Erasmus delivered an improved translation of the New Testament to prevent the continuance of certain misconceptions. In 1524 he wrote *In Defense of The Freedom of The Will*, opposing Luther's belief in predestination as described by Maarten Luther in his *De Servo Arbitrio*.

If there is a similarity between the church during the Reformation and present day financial services institutions, the work of Erasmus may deliver concrete suggestions on how to deal with the crisis in the financial services industry:

- Identify the follies in current practice and use good humor to exemplify them.
- Be critical on the leaders as well as the followers.
- Deliver practical suggestions on how to improve the current practice.
- Present the pros and cons of real-life ethical dilemmas in an anecdotal way.
- Embrace new technologies to inform a wide audience.

- Do not use punishment, but a liberal way of teaching.
- Develop training programs that help people to express themselves effectively.
- Address the leaders to change their behavior and become a role model.
- Respect the freedom of the will, for people to make their own choices in life.

In his criticism, Erasmus never tried to abolish the church, but made concrete suggestions to people of all ranks to live according to the simple truths of faith. His position as an independent scholar resulted in enemies from traditional theologians on the one hand and reformers on the other hand. Both groups accused him of being halfhearted and he defended himself in his *Apoloogia* forcefully against both sides.

Erasmus is acknowledged internationally as one of the important humanists and his work has helped to shape the formulation of humanist values as perceived today. In the Amsterdam Declaration 2002 (<http://www.iheu.org/adamdecl.htm>). the fundamentals of modern humanism are presented and the first four points of that declaration include:

1. Humanism affirms the worth, dignity, and autonomy of the individual and the right of every human being to the greatest possible freedom compatible with the rights of others.
2. Humanism seeks to use science creatively, not destructively.
3. Humanism supports democracy and human rights. Humanism aims at the fullest possible development of every human being.
4. Humanism insists that personal liberty must be combined with social responsibility.

In this dissertation, the humanistic values and the way Erasmus exemplified these values in his work and life, form the inspiration for the analysis delivered and solutions proposed in the area of personal financial advice. Amongst others, this will become apparent in the constructive use of science in the redesign of personal financial advice, supporting individuals to regain control over their personal finances and realize their personal goals, while urging individuals, financial service providers and regulators to take up their personal and social responsibility.

2.7 EVALUATING THE RESEARCH DESIGN

In 2010, an evaluation was made on the research design, based on the research delivered and recent literature. The growing popularity of the mixed design methods, employing the combination of quantitative and qualitative design, utilizing the strengths of both methods, has been underlined by Cresswell (2009).

According to Cresswell (2009), qualitative research design is a means of exploring and understanding the meaning individuals and groups ascribe to a social or human problem.

Quantitative research is a means of testing objective theories by examining the relationship among variables. Mixed methods research combines both qualitative and quantitative forms of research.

In retrospect, the major part of the research delivered is qualitative of nature, supported by quantitative research where appropriate.

Yin (2009) mentions the four criteria for judging the quality of research designs:

1. Construct validity; identifying correct operational measures for the concepts being studied.
2. Internal validity; seeking to establish consistent and valid causal relationships between concepts.
3. External validity; the level of generalization on the basis of the study's findings.
4. Reliability; the demonstration that the operations of the study can be repeated in a test-retest design.

In terms of construct validity, the theories and models that support the fundamental changes in personal financial advice were made explicit.

The internal validity and thus the causal relationships between the concepts expected to deliver positive results, are supported by theory and models on the one hand and tested in the case studies on the other hand. During the case studies, results were endorsed by all parties, including the representatives of the financial institutions, customer panels, and academics involved in the studies. Moreover, the case studies on pension advice and investment advice that have been implemented in real-life in the United States, support the expected results on personal financial advice in The Netherlands. Finally, the conclusions and recommendations have been corroborated in interviews with key people in the financial services industry. The internal validity, however, is limited by the fact that the fundamental changes in personal financial advice have not been implemented in The Netherlands to the full extent yet.

The external validity of this study is supported by the multiple case study approach used and the confirmation of the conclusions and recommendations in a series of interviews with representatives in the financial services sector. Still, external validity of the conclusions is limited by the number of case studies.

The validity and reliability is confined by the anonymity of the case studies, protecting participating companies from legal and reputational risks. However, anonymity is only of limited use in a country with a small number of large banks and insurance companies. Agreements with the companies involved on the level of detail to be shared publicly, limits the validity and reliability of the research findings even further. After an additional request to share more detailed information of the studies, all companies involved agreed to do so.

2.8 CONCLUSIONS ON METHODS

The most appropriate research methods were selected to accommodate the central research question. A combination of action research and multiple case studies best answers the “how” question, raised in the central research question. An optimized set of concepts and tools have been developed to support a normative framework on fundamental change in personal financial advice. The case studies were used to put the normative framework to the test. Further research and practice are required to certify the validity of the conclusions.

CHAPTER 3



DIAGNOSIS

CUSTOMER SEGMENTATION

PERSONAL FINANCIAL ADVICE IN THE TOP SEGMENTS

PERSONAL FINANCIAL ADVICE IN THE RETAIL SEGMENT

**PERSONAL FINANCIAL ADVICE IN THE MIDDLE
SEGMENTS**

**CONCLUSIONS ON THE PERSONAL FINANCIAL ADVICE
PROCESS**

DIAGNOSIS OF PRODUCTS ADVISED AND DELIVERED

DIAGNOSIS OF PERSONAL FINANCIAL ADVICE

3. DIAGNOSIS

In Chapter 1, the concept of personal financial advice was defined on the basis of the common understanding of personal financial planning and the reports delivered by the AFM. Furthermore, the need for change in personal financial advice was described, from the perspective of the customer, the financial service provider, the regulators, and the government. Thus, the context was set and the purpose of this dissertation was expressed by the formulation of the problem statement, the research goal, and the central research question.

In Chapter 2, the action research spiral has been presented, which after describing the context and purpose, moves to diagnosing. Diagnosis as described by Saunders et al. (2007) is about fact finding and analysis.

In this chapter, the focus is on fact finding and analysis regarding the real-life practice of the personal financial advice process, in order to find explanations for poor advice practices. Personal financial advice in practice will be studied on the basis of reports and publications for different customer segments and a detailed analysis is delivered on personal financial advice concerning a specific segment. Moreover, the products advised and delivered will be subject to evaluation. A diagnosis is delivered by comparing the concept of personal financial advice as described in Chapter 1 with the real-life practice. The gap between the two supports the idea that fundamental changes in personal financial advice are required.

3.1 CUSTOMER SEGMENTATION

Personal financial advice as here described, is not available for everybody. Financial institutions usually divide the market in customer segments, measured according to income and wealth. Although every financial institution sets its own boundaries, Table 3.1 gives an impression of what can be expected in real-life.

Customer segment	Net Income per month	Investable assets excluding primary residence, collectibles, consumables, and consumer durables.
Retail Customers	< € 5,000	-
Mass Affluent Customers	> € 5,000	> € 50,000
Affluent Customers	> € 15,000	> € 500,000
High Net Worth Individuals		> € 1,000,000
Ultra High Net Worth Individuals		> € 30,000,000

Table 3.1: Customer segmentation based on income and wealth

3.1.1 CUSTOMER SERVICE LEVELS

For the various segments, dedicated services are available, which will also vary among financial institutions according to their specific target group and strategy.

A typical description of service levels for a bank is the following:

- For the ultra high net worth individuals, global private wealth adviser teams are available, along with experts in areas such as investment management, concentrated stock management, and intergenerational wealth transfer strategies.
- For high net worth individuals, a local adviser team will be available to support, with local and an occasional international expert available.
- Affluent customers will be able to call a dedicated adviser, who is available for on average 300 customers, supported by a local team of experts.
- For mass affluent customers, an adviser is available for every 700 customers, with occasional support of experts.
- For retail customers, financial advice is only available on a product basis, delivered by product advisers with a specific expertise in mortgages, investments, insurances or pensions, and support delivered primarily through online channels and call centers.

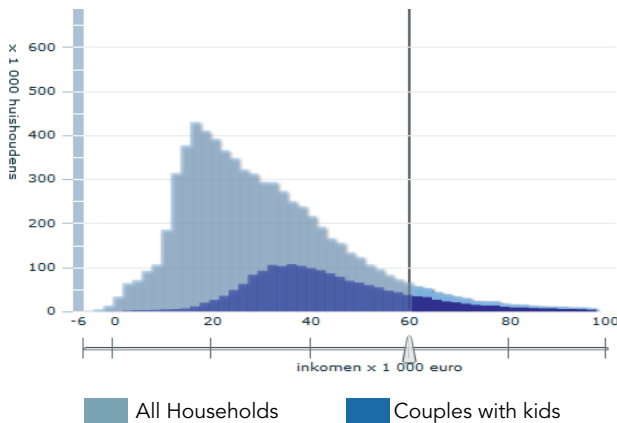
Insurance companies support clients directly (in most cases through mail, internet, and call center) or through (independent) financial agents or banks. Insurance companies offer more or less the same customer service levels for the segments as described above.

In Figure 3.1, it is shown that only 8.9% of the total number of Dutch households has a net annual income larger than € 60.000. Only these households will have the privilege

of a personal adviser at the bank while 90% of all households will only receive product related financial advice.

Figure 3.1: Dutch Households with Net Income > €60,000

Source: CBS, 2010



Total number of Dutch Households in 2008: 7,242,202

Dutch Households with Net Income > € 60,000 in 2008: 644,556 (8.9%)

3.2 PERSONAL FINANCIAL ADVICE IN THE TOP SEGMENTS

The World Wealth Report (Capgemini & Merrill Lynch, 2009, 2010) delivers a yearly update of market developments in the high net worth and ultra high net worth segments. In the report the customer requirements are described concerning the services delivered by wealth managers. The 2009 report shows that even in these high segments, profitability is at stake as the value of assets under management dropped and high net worth individuals, as a reaction to the global crisis, reduced exposure to equities and shifted into safety and simplicity (cash and fixed income). These effects have a negative impact on customer revenue and so, despite the relative strength of wealth management firms, profits are an obvious concern, as firms deal with decreased margins and are forced to cut costs.

Moreover, some of the customers in this segment have lost faith in their wealth managers and attrition has become a genuine issue. Customers require advisers to give risk management a central place in the ongoing client-adviser interaction. Risk management has become the essential aspect in improving the retention rate.

In the World Wealth Report 2009, an active approach to risk management is supported by measuring the customer's appetite for risk, weighed against the precise goals and needs, delivering full disclosure of the potential risks, and the impact of a confluence of events or extreme scenarios, including a global economic crisis.

The retention analysis in the World Wealth Report 2009 also revealed some areas that advisers over-value, particularly their own relationship with the client (92% said the relationship was very important in driving a client's decision to stay, while only 73% of clients concurred) and their firm's reputation (76% of the advisers say this is important, while 59% of the clients say so). This suggests that advisers have yet to adjust to the new reality in which trust and confidence in advisers, firms, and the financial system have eroded. The World Wealth Report 2010 underlines the conclusions of the 2009 report and shows that many firms are already adapting their advisory processes to include behavioral finance approaches and improved risk management (Capgemini & Merrill Lynch, 2010).

3.3 PERSONAL FINANCIAL ADVICE IN THE RETAIL SEGMENT

Personal financial advice in the retail segment is available on a product basis. Financial products are sold as separate products in a push marketing approach. As a result, it is not unlikely that over the years, a household collects a wide variety of financial products from different financial service providers, for instance:

- A payment and savings account at the home bank.
- A payment and savings account at another bank.
- A savings product for each of the children.
- An investment account at a broker or wealth manager.
- Pension, health and disability insurance through the employer.
- Additional pensions from former employers and partner.
- A mortgage from the real estate agent.
- General insurances and additional life insurances from an insurance agent.
- A lease contract for the company / family car.
- A personal loan for the second car, through the car dealer.
- Car insurance directly through the internet.
- Motorcycle, caravan, and boat financing and insurance from the distributor.
- International car and travel assistance through the motoring organization.
- Travel insurance through the travel agent.
- State pension and social security from the state.

It is clear that there is a lack of integration of these products and thus a risk of overlapping products (for instance between health and travel insurance), while some risks may not be covered at all. Over time, some risks may diminish or even expire, while others increase or materialize. As a result, many retail clients have a portfolio of financial services that does not match their needs and goals.

The “Besparingsplanner” (www.besparingsplanner.nl), a dedicated service for retail clients focused on optimizing the household budget, have found on a sample of over 279 households, that the average yearly savings in financial services premiums and costs reach € 699. The financial services comparison websites, Verzekeringssite (www.verzekeringssite.nl) and Independer (www.independer.nl) underline these data, claiming that the Dutch pay € 5,116 on insurance premiums per person per year and are over-insured for an estimated 10 to 20% in premiums per year (*Het Parool*, 2010).

The AFM, in its efforts to improve the customer care in the distribution of financial services, delivered studies on product oriented advice. Although these studies are not limited to the retail segment, they give an indication of the quality of product oriented financial advice.

In the study on mortgage advice, the Dutch regulator AFM reviewed 408 mortgage advice cases and found that the advice delivered in 75% of the cases was of acceptable to good quality (AFM, 2007). The life coverage advised however, fitted the client profile only in one third of the cases. In 2010, a second study on the mortgage advice practice was conducted, covering 214 mortgage advice cases. The 2010 study shows an improvement in the percentage of reasonable or good advice to 85% (AFM, 2010b). This improvement is slightly distorted because the number of financial service providers is reduced from 11,000 to 9,000 between 2007 and 2010. It is expected that the service providers leaving the market place were primarily those that had problems in delivering mortgage advice according to customer care requirements. The percentage of advisers with a good advice practice has not increased and often, the insurances advised do not match the financial position and risk profile of the customer.

The study of the advice process concerning capital insurances with an investment portfolio (“beleggingsverzekeringen”), showed that 75% of the parties delivering advice were rated reasonable to good, while 25% was rated mediocre to poor (AFM, 2008). An acceptable or reasonably good product advice does not mean that the product advised is the optimal solution to meet the goals and needs of the customer.

To do that, all aspects of the customer’s personal financial situation (partner and other household members) need to be considered. In the AFM study of the capital insurances with an investment portfolio, only 20% of the parties deliver advice that matches customer needs consistently.

The improvements in personal financial advice suggested by the AFM will require a substantial extra effort. In the 2010 report on mortgages the AFM notes that a further quality improvement will be required and for this, advisers need to be intrinsically motivated to put the customer's interest first, which demands a cultural change (AFM 2010b). They have to change from commission based sales persons to client centric advisers.

3.4 PERSONAL FINANCIAL ADVICE IN THE MIDDLE SEGMENTS

For the mass affluent and affluent customer segments, a dedicated adviser is available, supported by experts in the areas of mortgages, investments, insurances, and tax. In contrast to the retail segment, this adviser will have a customer focus, rather than a product focus. It does not mean that the adviser for the middle segment has no sales target, but the approach commences from the customer perspective. The adviser will discuss the financial situation, the goals and needs, and establish a personal financial plan. On the basis of the plan, the products required to meet the customer's objectives are proposed and delivered.

Since only limited literature and reports are available focusing on the real life practice of personal financial advice for the middle segments, a dedicated study is undertaken. In 2008, an in-depth analysis of the current practice in personal financial advice was initiated, for the mass affluent and affluent customers of a large bank in The Netherlands. The goal and scope of the study, focusing on the personal advice process, was agreed upon with the bank. Next, a master student of the University of Groningen with a specialization in Operations & Supply Chains was selected and offered an internship at Capgemini. In 2009, the study was conducted in cooperation with the bank, Capgemini, and the University of Groningen. The master student executed the study, under supervision of the author. The actual process of personal financial planning was recorded and analyzed (Dlabac, 2009; Schuurmans & Van Raaij, 2010; Schuurmans, 2010). Here the highlights of this analysis are presented. Research details on the analysis are available in Appendix B: Specification PFP/MFP.

Context

The bank employs 675 advisers in the branches across The Netherlands, each serving an average of 600 clients in the mass affluent and affluent segment. Customers are offered the service of a Personal Financial Plan (PFP).

Research question

The PFP process is laborious, and consequently, it will take several years for advisers to support each of their customers with a Personal Financial Plan. The research question focuses on the analysis of the current PFP process: How does the bank currently provide Personal Financial Plans? This analysis will be used as a basis for optimization.

Research

The research into the PFP process was based on the use of systems theory in description of business processes (In 't Veld, 1997; Harmon, 2007).

The current process of the Personal Financial Plan was analyzed in the following way:

- Documentation review, including a description of the process flow, information systems' functional description, the checklist used by advisers specifying compulsory activities, manuals, and a coaching tool that was used by the bank.
- A semi standardized interview with seven experienced advisers at six geographically dispersed offices of the bank. Each adviser was interviewed for approximately 1.5 hours. Data on the current as-is situation was collected by posing a set of questions related to the PFP composition process. A documentation based process flow chart was discussed with each interviewee to determine the correct process flow and lead time components. The data on process flow were utilized to construct a verified flowchart of the current PFP process. Moreover, data concerning lead time components were entered into a spreadsheet and analyzed. The analysis resulted in mean values for each lead time component. During each interview, notes were made by the researcher and an audio recording was used. Afterwards a transcript of the interview was prepared. To ensure the correctness and validity, the interviewees were asked to check the transcript. Subsequently, the data analysis included categorization of information, creation of data displays, and flowcharts.
- Interviews were conducted with the bank's experts in the field of Financial Planning, Human Resources, Finance, Insurance, Management Information, Marketing, and Sales. The expert's knowledge was utilized to better understand the bank's documentation, process norms, and workflow.
- Quantitative data were acquired by querying a database and sampling of completed PFPs. The Online Financial Planning (OFP) system is an information system that supports the PFP process. Data from the bank's OFP system database were analyzed. The analysis comprised the lead time of the activities on the basis of data available in the OFP system.
- Samples of completed PFPs were drawn from the E-archive. A total of 65 completed PFPs were checked for completeness as well as the number and type of product offers.

- A survey was conducted among advisers regarding the prescribed procedures of the PFP process. The survey design was verified and tested with the banks experts in the field of financial planning and sales. The request to complete a self administered survey was sent to 675 advisers. A total of 100 advisers responded to the survey, which is a response rate of 14.8%. The survey was announced by means of the bank's weekly sales mail. The sales mail included a link to an online questionnaire. The advisers received a reminder to respond to the survey by means of the bank's sales mail. Responses were collected during one month, from July 30 to August 31, 2009. The data were analyzed by means of the statistical software package SPSS.

The results of the analysis were presented and endorsed by the bank representatives: advisers, their managers, the PFP manager at the Head Office, and members of central staff, including Legal & Compliance, Capacity Management, Finance, Human Resources, and Marketing.

Process of Delivering a Personal Financial Plan

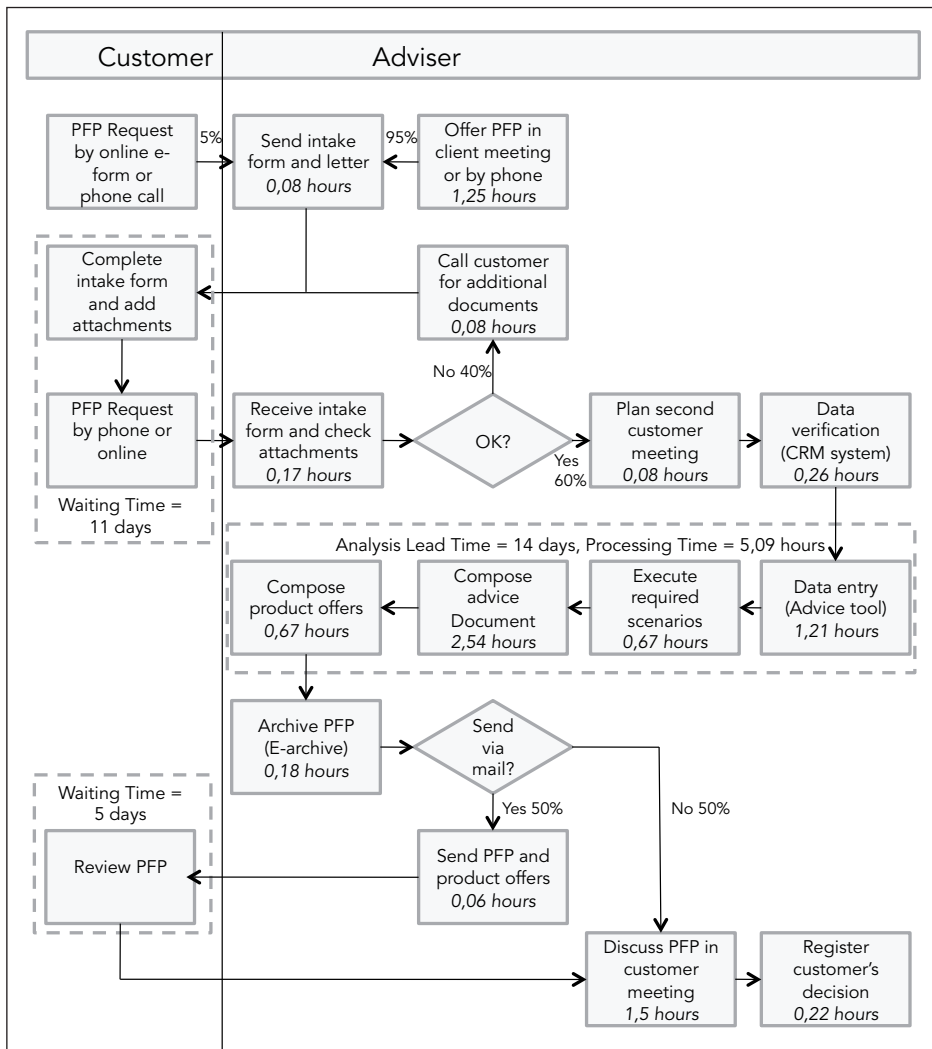
The current practice in delivering a Personal Financial Plan is depicted in Figure 3.2. The process of PFP is initiated each time a customer contacts the bank for a PFP or when the bank contacts the customer to offer a PFP. Customers can ask for a PFP by contacting their adviser, by calling the service desk or by submitting an online form through the bank's website. Subsequently, the adviser is notified of the customer's request.

The advisers estimated that approximately 95% of the PFPs are initiated by the advisers. The remaining 5% of PFPs are initiated by a customer's request.

Usually, the adviser provides the customer with an intake form during a first meeting and requests the customer to submit the completed form. After the customer submits the completed form and required attachments, the adviser verifies the customer documents. In approximately 40% of the cases, the documents are incomplete. Consequently, the adviser or the adviser's assistant calls the customer to request for the missing documents.

After having received the intake form, the adviser verifies the customer data with the bank's Customer Relationship Management system and enters the data into the On-line Financial Planning system. The advisers need to re-enter data in each system. The OFP system delivers a Personal Financial Overview. Next, scenario analysis on untimely decease and disability of client and/or partner are executed within the OFP system. Execution of other scenarios is optional. By executing the scenarios, the adviser is able to identify gaps in the customer's future financial situation. Based on the executed scenarios, the adviser draws up an advice document. Previously a separate advice document

Figure 3.2: The Personal Financial Planning Process as currently practised at a large bank



was composed in Microsoft Office Word. In July 2009 an advice document integrated in the OFP system was introduced, which replaced the Microsoft Office Word document. In order to deal with the financial gaps identified, the customer receives a minimum of two offers for products which can close the gaps. The hardcopy of the completed PFP is sent to the customer and a copy is submitted to be filed in an electronic archive. According to process documentation, the plan should be sent to the customer by mail when a

PFP is composed. Interestingly, the PFP is sent to the customer only in 50% of the cases. Sending the plan to the customer for review causes an additional average waiting time of 5 days. The other 50% of PFPs are handed over to the customer by the adviser during a final face-to-face meeting with the customer. All PFPs are discussed in a face-to-face meeting of the adviser and customer. When the customer accepts or rejects a product offer, the decision is documented in the Customer Relationship Management system.

Timelines

The timelines for each activity are presented in the flow chart of Figure 3.2. These data are based on the structured interviews and validated in the survey. The total processing time, the time the adviser actually spends on one plan for one customer, is 9 hours of which 2.8 hours is spent in personal contact with the customer. The end-to-end lead time of the process is 28.6 days, which consists of 16 days waiting time for the client documents and review.

Quality of the Personal Financial Plan

In the interviews, advisers stated that there is limited support and a lack of quality control in the PFP process. The advisers' managers neither had the time nor the expertise to support advisers and to assess the plans delivered. A sample of 65 files showed that only 26% of the plans included all the obligatory components as defined by the bank. In many plans the scenario analysis, the minimum of two product offers per plan, and an interview report with the customer were missing.

Comparing the personal financial planning process as described in Chapter 1, Figure 1.2 with the flow chart of the Personal Financial Planning Process in Figure 3.2, the feedback loop that should support monitoring and adaptation of the plan is missing. In fact, there is no procedure in place to monitor the plans over time and take necessary action, if so required. This lack of monitoring is a serious shortcoming because customers do not receive a warning regarding problems that may arise in their financial situation.

Management of the Personal Financial Plan Practice

The analysis showed that the goals of PFP are not stated explicitly in the bank's documentation and are not quantified. The bank's Capacity Management department has not determined how many resources are required for PFP activities. Therefore, there are no full time equivalents allocated for PFP. Yet, every adviser is expected to deliver 40 new PFPs each year, which constitutes 360 hours per year i.e. 25% of total workable hours per adviser per annum. Advisers experience the PFP process to be time consuming. With 600 customers to serve, advisers experience stress in their ability to serve all customers satisfactorily.

Costs of PFP

The bank's PFP service is offered free of charge to the customer.

The average total yearly cost of one full time adviser, for the mass affluent and affluent segment is € 100,000. With a total of 1476 workable hours per year, the average direct labor costs for an adviser are € 68 per hour.

A personal financial plan requiring 9 hours processing time will therefore cost the bank € 612 in direct labor costs. With 675 advisers each delivering 40 new plans per year, a total of 27,000 PFPs are delivered against € 16,524,000 in annual direct labor costs.

Profit Contribution

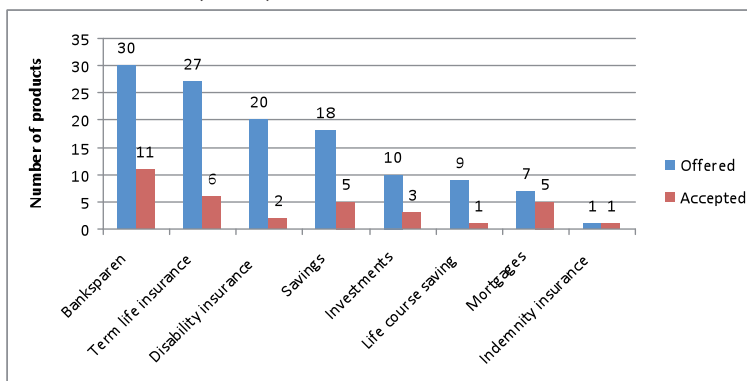
Product sales were analyzed by means of random sampling of PFPs submitted to the e-archive. With 65 PFP's included in the sample, 1.9 products on average were offered per plan, of which 27,9% on average were accepted by customers.

The products offered include fiscal savings products "Banksparen" (bank saving) and "Levensloop" (course of life arrangement), term life insurance, disability insurance, savings, investments, mortgages, and general insurance.

To be able to break even the direct labor costs of € 612 per PFP, the average margin per product sold needs to be: $\text{€ } 612 / (1.9 \times 27,9\%) = \text{€ } 1,154$.

In Figure 3.3, of the sample of 65 PFP's, the products offered to and accepted by the clients are shown.

Figure 3.3: Products Offered and Accepted on Basis of PFP's Sample of PFP's in e-archive (n=65)



Unfortunately, data on the profit margin made by the bank on products sold are not available. However, it is clear that the margin on banking products (20 of the 33 products sold) is not available immediately after the product is sold, and grows gradually over the years with the volume (of savings) and/or the number of transactions (investments). Insurance

products (9 of the 33 products sold) are expected to be paid a commission. However, the commissions on complex insurance products are under evaluation. Although a mortgage sold may earn an interesting amount of 1% of the total mortgage, the bank has an additional advice process that is required to advise clients on a mortgage. As a consequence, it is not expected that the direct labor costs will be compensated by the profit margin on products sold. Even if the long term benefits are taken into account (Customer Life Time Value) a profitable revenue based on PFP is not expected, if the costs for a regular update of the PFP are considered. Although a more detailed analysis is required, advisers and bank management agreed that PFP as currently delivered, is economically not a viable option for the future.

Conclusions on PFP

On the basis of the data gathered regarding the practice of personal financial planning at this bank, the following conclusions are drawn:

- The business goals of the personal financial plan are not clear.
- The process to deliver a PFP takes 9 hours of work for an adviser and a month to be completed.
- The quality of the PFPs does not meet the bank's own standards, while monitoring and control of the plans delivered are neglected.
- The delivery of PFPs is not sufficiently supported by management, who lack the time and expertise to ensure the quality of the plans.
- A PFP costs € 612 in direct labor, while the margin on products sold is not expected to cover the direct labor costs.
- If the long term benefits are taken into account, the long term costs of a regular update of the PFP are expected to reduce profitability even further.
- Advisers experience stress having to deliver 40 plans per year, requiring 25% of their time, while trying to keep the remaining 560 customers satisfied.
- No resources are allocated for the delivery of PFP, nor for monitoring and adapting of the plans over time.
- If 40 plans are delivered each year, it will take at least 15 years for the adviser to support the assigned 600 customers with a personal financial plan.

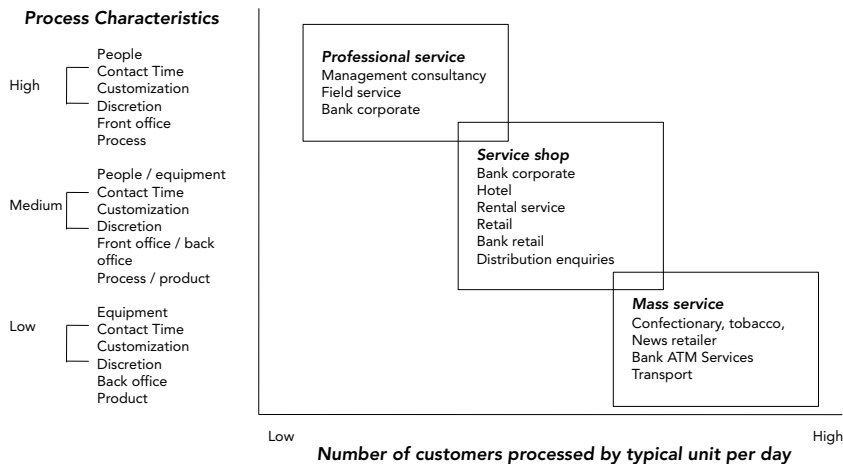
In characterizing the PFP process, the framework for classification of service processes established by Silvestro (1999) is used. The framework enables classification of service processes from professional services towards mass services according to several process characteristics (see Figure 3.4).

The characteristics include the level in which the focus is on equipment or people, the customer contact time per transaction, the degree of customization, the degree of dis-

cretion, the value added by back office or front office, the focus on product or process, and the number of customers processes per unit per day.

Figure 3.4: Service Process Framework

Source: according to Silvestro, 1999



According to this service process framework, PFP can be characterized as a professional service, based on a high level of people orientation, a relatively long contact time with customers, a degree of customization in the PFP delivered, advisers' discretion to determine relevant scenarios and product offers, the value added in the front office and the limited number of customers processed per day.

The professional nature of personal financial planning is reflected in the financial planning process, in which advisers, though supported by software tools, rely heavily on their expertise to capture the correct client data, analyze the present situation, select relevant scenarios and products most suited to meet the customer's goals and expectations. This expert process demands a substantial part of the advisers working time, which needs to be compensated by the margin made on products sold.

Limitations

This study on the process of PFP has several limitations. Only seven advisers were interviewed from a total of 675 advisers. These advisers had at least five years working experience and six were certified advisers. These advisers may not represent most advisers, resulting in selection bias. The bank's information system from which quantitative data was collected contained incomplete data. Important data such as lead time components were not available. In addition, to accurately measure lead and process time a time study

should be preferred. However, the lengthy nature of the process (approximately one month lead time) and the limited number of PFPs composed by each adviser would have required the inclusion of many advisers during a long period of time. Moreover, the process of PFP is intertwined with many other of the advisers' activities. The survey conducted among advisers may be biased because it is a self-administered survey. The respondents may have had special interest in PFP. Moreover, a selective non-response may have biased the results.

3.5 CONCLUSIONS ON THE PERSONAL FINANCIAL ADVICE PROCESS

In Chapter 1, personal financial advice has been defined as the continuous process of planning, executing, monitoring, and controlling income, expenses, assets, and liabilities, while managing financial risks, providing support for the changing goals, needs, and capabilities of customers in subsequent life stages.

In this chapter, the real-life practice of personal financial advice has been studied for three customer segments, the top, middle, and lower segment.

Even in the top, most wealthy segment, profitability of personal financial advice is already under pressure and the importance of customer-adviser relationship as well as the firm's reputation are overvalued. Customers have lost trust and confidence in advisers, firms, and the financial system. Advisers and firms are required to evaluate the traditional ways in delivering financial advice and concentrate on those aspects that clients are now focusing on, such as improved risk management.

In the middle segment of affluent and mass affluent customers, an in-depth view into the practice of personal financial planning at a large bank was presented. The results of this study show that the financial advice delivered can be characterized as a professional service. However, the quality of advice delivered is not according to the bank's own standards and does not include the essential monitoring process, while the costs of this service are not expected to be compensated by the margin on sales. Personal financial advice as delivered by the bank is not expected to be economically viable in the future. In the lower segment of retail customers, that represent 90% of Dutch households, personal financial advice as defined here is not available, unless customers are willing to pay for it. These households have to rely on product advice, which is offered by various suppliers, which can easily result in an unbalanced portfolio of financial products and ser-

vices. Although in the majority of cases studied by the AFM the product advice delivered was acceptable to good, there is still room for improvement.

The AFM has developed additional standards to improve the quality of personal financial advice. Data of ING suggest however, that the effort and costs to deliver financial advice that meets the standards for excellent advice according to the AFM, will significantly increase the time required by the adviser. On the basis of research by Dukers & Baelemans (training consultants in financial planning) and Bureau D&O (consultants in financial advice), ING concludes that the time needed for excellent advice as described by the AFM would take 20 – 25 hours (Hagenaars, 2009). ING has estimated the accumulated costs for a mortgage advice between € 2,300 and € 5,940. The ING calculation is based on an adviser's hourly rate of € 115 - € 165, which is more than the € 68 per hour direct labor costs used in the bank study, but includes the overhead costs (office, facilities, management, marketing, and others).

Compared to the data from the study on personal financial advice at the bank, the ING data (Hagenaars, 2009) support the view that personal financial advice that complies to quality standards will only be delivered at considerable costs, which, even in the case of a mortgage contract, are not expected to be compensated by the commission income received.

The gap between costs and revenue could be bridged if customers would be willing to pay a fee for personal financial advice. In the research presented by ING, customers have expressed the willingness to pay between € 280 and € 380 for a mortgage advice (Hagenaars, 2009). This, still leaves a wide gap with the accumulated costs of € 2,300 to € 5,940.

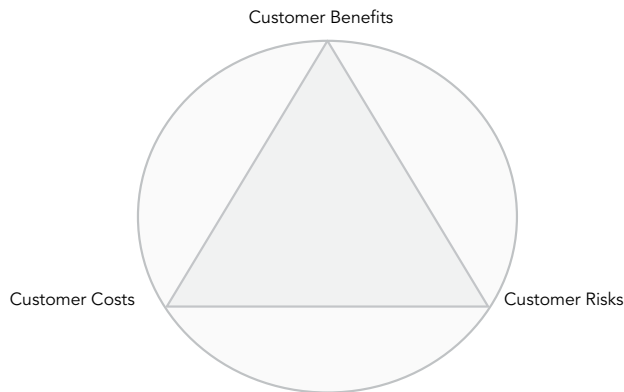
3.6 DIAGNOSIS OF PRODUCTS ADVISED AND DELIVERED

Even if the number of complaints on financial products advised and delivered is limited compared to the total number of products sold, the cases in which products are delivered that, at least in retrospect, do not match the customer profile, deteriorates the trust in financial advisers, the suppliers and the financial sector as a whole.

In selecting a product for a client, the adviser has to take into account the benefits, the costs and the risks of the product for the customer in the short and long term. This is a balancing act (Figure 3.5) because high benefits are often related to high risks, while a reduction of costs now can result in higher costs in the future.

The subprime loan product, for instance, delivered great benefits for customers who were rejected by others to obtain a mortgage and buy a house, however, did not sufficiently take into account the risks of a rise in interest rates.

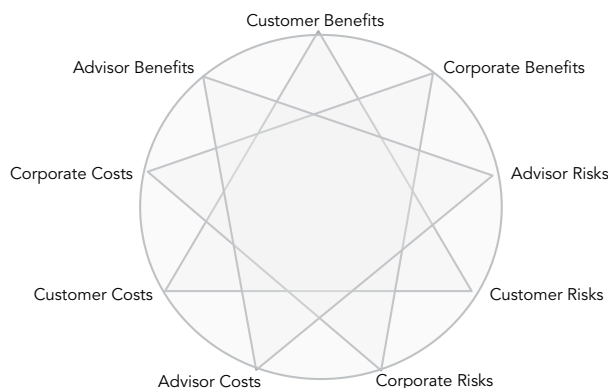
Figure 3.5: Balancing Customer Benefits, Costs and Risks



A financial adviser will also have to balance his income with expenses as well as the risks associated with his trade. In a situation in which customers are not inclined to pay for financial advice, the financial adviser will look at commissions and bonuses as the source of income to compensate for the costs made. Products with high commissions and bonuses may then have a better chance of being advised than others. However, the recent claims and penalties have shown that there are serious costs and risks associated with advising products that do not match customer goals, needs, and capabilities. The financial adviser therefore has to balance adviser benefits vs. adviser costs and risks in the short and long term.

A financial institution, promoting its' financial products, will also influence the advice delivered. In corporate policy the balance between revenues, costs, and risks is equally important. Corporate policy may be geared towards those products that have the greatest profit margin. The most interesting products for the financial institution are those of which the costs can be charged to the customer and the (credit) risk can be transferred to other parties. At the same time, the financial crisis has shown that the delivery of these products may have serious reputational risks and detrimental effects on corporate continuity. Thus, in the short and long term perspective, the corporation delivering financial products also needs to balance revenues, costs, and risks. In the advice and delivery of a financial product, a balance needs to be found between the short and long term benefits, costs and risks of the customer, of the adviser and of the financial services company (see Figure 3.6).

Figure 3.6: Balancing Customer, Advisor and Financial Institution's Interests



Apparently, in the cases of the subprime loans and certain products offered in the Dutch market, the balance has drifted too much towards corporate and adviser benefits while customers accepted more risks and costs than they can manage.

In a report by the Dutch Central Planning Agency (CPB, 2006), the following results were obtained on the basis of combining Dutch consumer survey data and data on quotations by Dutch life insurance companies. Firstly, respondents who buy their life insurance policy directly from an insurer attain a significantly better match between their risk preferences and the type of policy chosen than respondents who purchase their policy through an insurance broker. Secondly, respondents who buy their policy through an insurance broker obtain a significantly lower pay-out than respondents who purchased their policy directly from an insurance company. These results raise doubts about the functioning of both the market for financial advice and the market for life insurances.

De Jong (2010) concluded that the market of Independent Financial Advisers is characterized by market failure: consumers are not well informed and advised by advisers in the selection of financial products. De Jong states that the prime reason for this market failure is found in the strong relationship between suppliers and advisers, supported by the commissions agreed upon between supplier and advisers. De Jong (2010) recommends a ban on commissions on complex financial products.

The Minister of Finance, based on the research by SEO (2010) has informed Dutch parliament of his intention to abolish commissions on complex financial products (Dutch Department of Finance / Ministerie van Financiën, 2010). In parallel, new open norms will be developed to prevent excessive fees from advisers to clients.

3.7 DIAGNOSIS OF PERSONAL FINANCIAL ADVICE

Personal financial advice is characterized as a professional service.

In the top segment, quality is at risk and profitability is under pressure.

Personal financial advice in the middle segment, as delivered at a large bank, is not delivered according to the bank's quality standards and is not considered to be an economically viable option for the future.

In the lower segment, the integrated approach of personal financial advice is not available at all, unless customers are willing to pay a substantial fee. Two developments increase the gap between costs and revenues related to personal financial advice even more:

- Additional customer care regulations, while trying to improve the quality of financial advice, increase the complexity, the labor intensity, and the costs of personal financial advice.
- The ban on commissions for complex financial products will substantially decrease the revenues of (independent) financial advisers.

Customers are willing to pay for financial advice, however, the amounts that customers seem to be willing to spend, do not come close to the actual costs of delivering personal financial advice. Examples of banks in the UK and Norway show, that if personal financial advice cannot be delivered profitably, this service is not supported anymore and customers are left with only a product brochure.

Free financial advice comes with a price. Products have been advised and delivered that seem to have been designed to maximize the benefits for advisers and suppliers, leaving the costs and risks to customers.

In conclusion, the quality of personal financial advice needs to be improved and ensured to prevent poor advice practices to continue, while the profitability in delivering personal financial advice needs to be increased, delivering financial products that balance the interests of customers, advisers, and suppliers.

A small and gradual improvement will not be able to deliver substantial improvements in quality and profitability. Fundamental changes in personal financial advice are required in order to deliver personal financial advice that is in the customer's interest, compliant with internal and external regulations, cost effective and beneficial for the customer, the adviser, and financial institutions in the short and long term.

CHAPTER 4



THEORIES AND MODELS BASED ACTION PLANNING

BUSINESS PROCESS REDESIGN

TRENDS IN CONSUMER BEHAVIOR

BEHAVIORAL FINANCE

MARKETING

BUSINESS ETHICS

INFORMATION TECHNOLOGY

**NORMATIVE FRAMEWORK OF CHANGES IN PERSONAL
FINANCIAL ADVICE**

4. THEORIES AND MODELS BASED ACTION PLANNING

After the description of the context and purpose for fundamental changes in personal financial advice in Chapter 1, the real-life practice of personal financial advice was analyzed, and in Chapter 3 the diagnosis was delivered that fundamental changes are required to improve quality and profitability.

This chapter describes the next phase in the action research spiral: planning.

The planning stage, according to Saunders, Lewis & Thornhill (2007), focuses on action planning and on decision making about the actions to be taken. In this dissertation, the planning for action is supported by a normative framework, based on theories and models from several disciplines, including business process redesign, trends in consumer behavior, behavioral finance, marketing, business ethics, and information technology. These theories and models will be presented first. After that, a normative framework of fundamental changes in personal financial advice will be provided. In the Table 4.1 below, an overview of the main authors as well as the theories and models are listed, which will be discussed in this chapter.

Field of Expertise	Main Authors	Theories & Models
Business Process Re-design	Silvestro (1999) Harmon (2007) Van Asseldonk (2000)	Business Process Model Business Process Change Mass Customization
Trends in Customer Behavior	Wuyts, Dekimpe, Gijsbrechts & Pieters (2010) Henderson & Palmatier (2010)	The Connected Customer Boundary Spanner
Behavioral Finance	Kahneman & Tversky (1979, 2000) Bodie & Prast (2007) Van Raaij (1984, 2009, 2010) Merton (2006a,b) Thaler & Sunstein (2008)	Prospect Theory Financial Decision Making
Marketing	Ennew & Waite (2007) Poiesz & Van Raaij (2007)	Financial Services Marketing Value Matrix Virtual Guardian Angel
Business Ethics	Velasquez (2006) Thaler & Sunstein (2008) Prast, Mosch & Van Raaij (2005)	Contract, Due Care, and Social Cost View Libertarian Paternalism Trust
Information Technology	Bowles (2011) Howson (2008)	Customer Centric Design Business Intelligence

Table 4.1: Overview of Authors, Theories and Models.

4.1 BUSINESS PROCESS REDESIGN

The challenge of improving quality while reducing direct labor costs has been faced by many industries. Historically many production processes have gone through a complete redesign of the production process. Two famous examples will be discussed briefly in order to see if and how these examples can contribute to the innovation of the personal financial advice process.

Clothing Industry

Till the end of the 19th century clothes were tailor-made, delivering a garment after a precise measuring session, careful selection of fabrics, a first and second fitting to make sure that the result was impeccable. In the present day most clothing is manufactured in standard sizes, customers go to a shop, select the right model and size. The tailor, if required, will only need to make small adjustments.



Car Manufacturing

In 1908 cars were produced on demand only. Ford introduced the T-Ford for 1/3 of the average priced car and in every color as long as it was black. The standardization persisted in every aspect of the automobile industry, yet today there is no lack in models, colours, design, accessories, or finish. Moreover, cars have improved in quality, speed, safety, and fuel consumption.



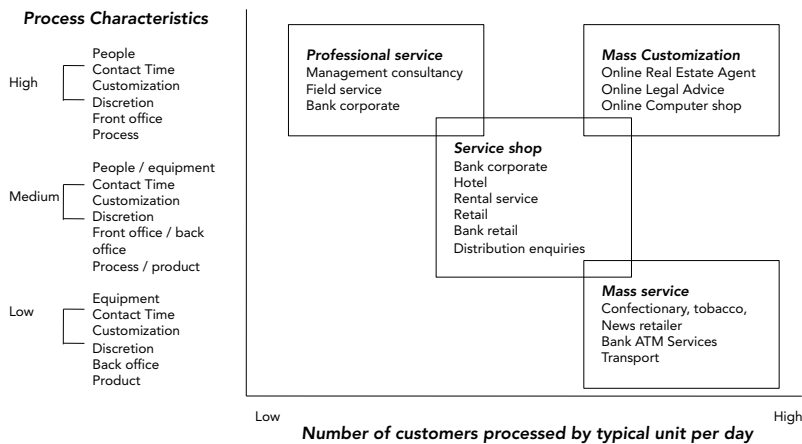
In both the examples of the clothing and the car industry the industrialization turned the production process around 180 degrees. Instead of manufacturing taking place after detailed discussions about client's requirements, in the industrialized process, the manufacturing takes place before the first contact with the client. Standardization has been able to reduce production costs substantially while raising quality at the same time. Moreover, different models and options were introduced to adapt the standard to the needs of a client segment and the preferences of a specific client.

The characteristics of industrialization have been captured in system theory (In 't Veld, 1975). Systems theory has been applied to service processes as well (De Sitter, 1981). The application of quality assurance and logistics to administrative processes became the heart of business process redesign practice (Waterman Jr. & Peters, 1982; Schuurmans,

1995). Case studies of successful service process reengineering resulted in frameworks for service processes, describing the characteristics of professional services, service shops and mass service (Silvestro, 1999). The approach of business process redesign and the quantitative approach to process optimization have been developed and applied to service processes in Lean Six Sigma for Service (George, 2003). The structuring of front office and back office processes in service delivery systems was described by Zomerdijk and De Vries (2007). Harmon (2007) has combined the various techniques on business process management and Six Sigma with the techniques supporting process automation. Harmon (2007) advocates a best practices approach that seeks to combine the best of all process change traditions.

The growing success of business processes that combine standardization on the one hand and personalization on the other, indicates that the service process framework as developed by Silvestro (1999) needs an extension. A class of mass customized services needs to be added to the framework, that combines the characteristics of professional services with the delivery to a great number of customers. In Figure 4.1 class of mass customization is depicted.

Figure 4.1: Service Process Framework (extended)
Based on Silvestro, 1999



Mass customization is able to deliver customized products and services at no additional costs, as compared to mass production (Van Asseldonk, 2000). In Van Asseldonk's view, customers "create" personal products by selecting the components that best fit their preferences. The main question is how to design the selection process in such a way that customers can quickly be guided to the preferred combination of products and services from

a myriad of possibilities. This can be done by the use of default options and a stepwise procedure of questions, restricting the number of options with each customer's answer.

4.1.1 APPLYING BUSINESS PROCESS REDESIGN ON PERSONAL FINANCIAL ADVICE

Business process redesign should be able to reduce direct labor costs in the practice of personal financial advice and improve the quality of advice delivered at the same time. In one of the case studies that will be presented later, several techniques on business process redesign will be applied to the personal financial advice process. Here, we focus on the most fundamental changes that are expected to reduce the direct labor costs and ensure quality, while delivering personal financial advice in accordance with the needs of customers; standardization and personalization.

The current practice of personal financial advice can be compared with the process of the traditional tailor, delivering a custom-made financial plan and advice, on the basis of several interviews with the client. A standardized personal financial advice can be produced prior to the first contact with a client. Standardization does not necessarily result in "one plan fits all". Just like in the car industry, a wide variety of models can be made available dedicated to a variety of customer segments. A standardized financial plan can be developed for each specific client segment, in a specific life stage and for a specific life event. For instance, young couples with a double income and no kids who intend to buy their first home, will have many characteristics in common with other young couples in the same position. For this customer group a standardized personal financial advice and a well balanced package of financial products could be designed to support their plans for the future.

To prevent that the standardized plan does not really match personal preferences, personalization can be added. Thus, the standardized financial advice will include options and features that can be altered according to personal preferences. For instance, in the example of the young couple with double income and no kids, a number of features can be included to allow the standardized financial advice to be personalized according to customers' preferences, e.g.:

- The repayment percentage of the mortgage.
- The insurance cover for disability.
- The fixed interest rate period.

Over time, just like in car production, more features will become available so that customers will have more options from which to choose. However, in the beginning, the number of variables is expected to be limited.

4.2 TRENDS IN CONSUMER BEHAVIOR

In the redesign of personal financial advice, we will have to take into account the trends in the behavior of consumers. Poiesz and Van Raaij (2007) have highlighted the following consumer trends:

- Individualization; the customer's need for products and services that are personalized to individual preferences and situations.
- Values; the growing importance of customer values such as respect, friendship, peace, security, social responsibility, and environmental protection.

Higher education, the availability of information through the internet, combined with an appetite for technology and personal experience have made consumers accustomed to the use of online channels during every step of their shopping experience (Capgemini, 2009).

Nirmalya Kumar, Professor of Marketing at the London Business School (www.london.edu) captured the following top ten consumer trends in 2010:

1. Internet goes mobile.
2. Google is passé, Facebook is hot.
3. Traditional media, like radio and TV, need to reinvent themselves.
4. Content explodes and democratizes.
5. Layer reality takes over.
6. Social responsibility meets big business and big brands.
7. Energy consciousness goes mainstream.
8. Brands seek value.
9. Bling is in.
10. Innovation moves east.

From these ten trends, the top five are about the use of digital services, while three focus on values. Internet and mobile, social media, online services, and location based content is an important part of modern life as well as social responsibility and ecology. The redesign of personal financial advice will have to fit in.

Wuyts, Dekimpe, Gijsbrechts & Pieters (2010) edited a series of articles describing the various aspects of "The Connected Customer" and the implications for organizations. They underline the importance of the integration of interactive media in the communication mix of companies, the notion that consumers are digitally connected in countless special-interest groups and the fact that customers are looking for best value through a variety of review and price comparison services.

Henderson and Palmatier (2010) describe the pivotal importance of “boundary spanners”, professionals who connect with customers on behalf of the firm, like account managers and advisers. The boundary spanner helps customers maximize the value of the purchase. Boundary spanners should be trustworthy, competent, credible, committed, and benevolent problem solvers, who enjoy the social satisfaction of effective communication and collaboration.

Camacho, Landsman, and Stremersch (2010), in their article on the connected patient, describe the change of the traditional white coat model to a shared decision making model, in the relationship between the doctor and the patient. The shared decision making model is based on mutual participation, mutual sharing of information, value sharing, and mutual agreement.

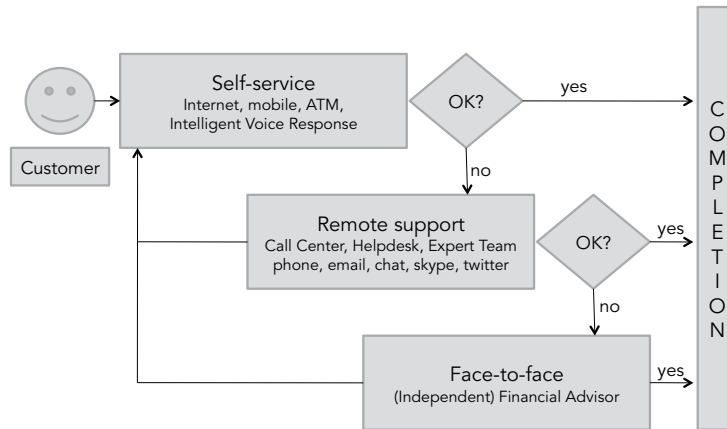
4.2.1 APPLYING TRENDS IN CUSTOMER BEHAVIOR ON PERSONAL FINANCIAL ADVICE

In the redesign of personal financial advice, the digital channels and the support of an adviser should be integrated flawlessly. Customers are more self-directed and prefer the internet and mobile services. These self-service channels are often associated with simple products and services such as buying a book or CD or downloading music. Increasingly, even in the sales of these simple products, personal advice is added and has proven to be effective in making the shopping experience more interesting for the customer and more profitable for the store. The service at Amazon is more personal and the information more relevant than in many real-life book stores. At Amazon, customers are supported in decision making, advising new books in areas of interest, presenting background information on writers, collaborative profiling by rating of books and by showing that people who bought this book, also bought specific other books.

In a department store, people look around, but expect immediate help when required. In the same way, customers use self-service channels with support available at their fingertips. The seamless integration of self-service, remote support, and face-to-face support is depicted in Figure 4.2. Starting with self-service through internet or mobile, customers can receive remote support immediately by contacting the call center or helpdesk by telephone, chat or video conference. If so required, a meeting with a financial adviser can be scheduled as well.

In 1984, Dell computers was first to realize that advice, sales, and support on complex and customized products, can very effectively be delivered through assisted-self-service, using the internet for self-service, supported by a call center, and with technical support

Figure 4.2: Assisted Self-service



at home, if required. Critics predicted this model would fail because customers would prefer an expert and person-to-person contact in selecting a computer. The continued success of Dell proved them wrong.

The complexity of the products and services delivered in assisted-self-service is increasing rapidly, including travel services, real estate services, legal advice and even psychotherapy. Now that wireless broadband infrastructure is becoming available everywhere, self-service, remote, and face-to-face support through videoconference are available using a laptop or mobile phone.

If we apply the concept of assisted-self-service to the process of personal financial advice, customers with a laptop or mobile phone should be able to browse in the financial advice department, select their life stage and the life event that they are now in, have a look at the standardized financial advice available, personalize the advice according to their preferences and save the results to have a second look later. If, somewhere during this process, customers require support, remote support will be available through call center, chat, e-mail or videoconference. In many cases this will be sufficient; however, a person-to-person meeting can be arranged with an adviser. The adviser in the role of boundary spanner, will help customers maximize their value. In effective collaboration with the client a decision is reached. After the decision is made, the products will be applied for, by using the self-service channels. When the transactions are completed, monitoring & control will take place on a continuous basis, alerting customers to take necessary action, if so required.

The self service channels will be able to support community building of customers in the same life stage, or confronted with the same life event.

Through all the channels, customers will experience a consistent demonstration of values, including respect, friendship, honesty, and social responsibility.

4.3 BEHAVIORAL FINANCE

In the redesign of personal financial advice, the specific behavior of customers in the way they manage their finances and decide on financial products, needs to be taken into account.

Research by CentiQ on Dutch households shows that only 13% of the respondents were able to answer all six basic questions on household finances correctly. This study indicates that in selecting new financial products, the Dutch prefer security and well-known, simple products (Antonides, De Groot & Van Raaij, 2008).

Although general education levels have increased and many consumers can provide an expert opinion on an LCD TV compared to a plasma TV, knowledge about financial products is limited. Research has shown that there is a degree of financial illiteracy that makes people incapable to make informed decisions regarding investments in a pension plan. Reducing the complexity of financial decisions will improve the quality of decisions (Van Rooij, 2009).

Behavioral finance uses social and psychological factors in understanding the economic decisions of individuals. Apparently, the concept of "homo economicus" making well informed, rational decisions, and maximizing utility is not in line with reality.

Kahneman and Tversky were among the first to develop a theory on the cognitive and psychophysical determinants of choice (Kahneman & Tversky, 1979, 2000). They found that people are subject to risk aversion in the domains of gains and risk seeking in the domain of losses (in order to avoid losses). People also overweigh certainties and improbable events, relative to events with moderate probability. In prospect theory, value is assigned to gains and losses rather than to final assets. Furthermore, probabilities are replaced by decision weights.

Several concepts were added to prospect theory by Kahneman, Tversky, and others (Kahneman & Tversky, 1979, 2000), to better explain the anomalies in decision making, including amongst others:

- Framing; the influence on preferences of the way a problem is described in positive or negative terms, as a gain or a loss, respectively.
- Mental accounting; organizing finances by categorizing expenditures in separate accounts, setting a maximum spending to an account and restricting expenditure of an account to the maximum in a particular period.
- Money illusion; tendency to think in nominal rather than real monetary values

- Fairness as a moral constraint to profit seeking

Kahneman (2003) continued his research on decision making and developed a model suggesting five ways in which a judgment or choice is made, with a central place for effortless intuition (System 1) as compared to deliberate reasoning (System 2):

1. An intuitive judgment or intention is initiated, and (a) endorsed by System 2, or (b) adjusted (insufficiently) for other features recognized as relevant, or (c) corrected (sometimes overcorrected) for an explicitly recognized bias, or (d) identified as violating a subjectively valid rule and blocked from overt expression.
2. No intuitive response comes to mind, and the judgment is computed by System 2.

Kahneman states that there is no way to ascertain precisely the relative frequencies of these outcomes, but casual observation suggests that Cases 1(a) and 1(b) are the most common and that Case 1(d) is very rare.

Van Raaij (2010) underlines that the subconscious mind makes the primary decision. This process is influenced by the way the information is presented and is a Primary Affective Reaction (PAR) (Van Raaij, 1984). After that, the conscious mind helps to select the necessary information and makes the deliberations to support the decision that unconsciously already has been made. Loss aversion, which can work unconsciously or consciously, seems to be a strong driver in determining preferences, while people pursue positive results in life.

Thaler and Sunstein (2008) suggest a good decision hierarchy to “nudge” (gently push) customers into making sound decisions (Thaler & Sunstein, 2008).

4.3.1 APPLYING BEHAVIORAL FINANCE ON PERSONAL FINANCIAL ADVICE

Prast (2005) applies the behavioral finance concepts to the domain of financial planning, supporting decisions about working, consuming, saving, and investing. Prast underlines that these decisions are becoming more important, now that individuals are given more freedom to choose and need to deal with the related responsibilities. These decisions at a micro level will have important macro economic implications. Prast (2005) introduces seven laws of the emotion economy that govern financial decision making by individuals, including (1) loss aversion, (2) asymmetric risk appetite, (3) preference for the middle of the road, (4) problems with self control, (5) financial illiteracy, (6) myopia for disasters, and (7) asymmetric information filtering.

Bodie and Prast (2007) describe the decision making behavior regarding pensions and note the irrationalities in decision making, the financial illiteracy, the lack of interest in looking for relevant information and the fact that the essential information is often too specialized for laymen. They describe an old and new paradigm of personal financial planning. The old paradigm is characterized by a rational planner, focused on wealth accrual, expecting that long term investments in stocks are safe, managing risks through diversification, selecting investment products from the widest variety available. The new paradigm takes into account that the financial consumer does not appreciate planning and is not trained in financial planning, while the focus is more on available income during subsequent life stages, acknowledging that investments in stocks are risky even in the long term, requiring diversification, hedging, and insurances to mitigate risks. In the new paradigm, a limited variety of dedicated life cycle products is available. The new paradigm is based on customers' preferences for simplicity and a secure pension plan, based on defined benefit. Customers acknowledge that they are financially incapable and not motivated to learn about finances, even if the training would be available free of charge. Contrary to the common remarks that financial institutions should now focus on simple products that are easy to understand, Bodie and Prast (2007) suggest the use of structured products that deliver guaranteed and possibly even higher returns against minimal risks. The results of complex products can be presented to customers in simple ways. As Merton (2006a) suggested, a pension product is like a car: most customers are not interested in what is under the hood, but are interested in the performance of the product, in relationship to the price. Information on pension products may be limited to the required life standard, the retirement age, the premium and possibly the extra premium to make life a bit more comfortable (Mendoza & Merton, 2006).

Thaler and Sunstein (2008) found that participation levels of employees are strongly influenced by the way the retirement plan options are presented and the use of default options. More options do not lead to higher participation levels, while the presence of default options does.

4.4 MARKETING

The redesign of a production process will have a big impact on the marketing processes as well. Henry Ford, for example, has been admired for the redesign of the automobile production process and consequently, he turned the marketing process around from one-to-one marketing to mass marketing. Thus, while the focus has been on redesigning the personal financial advice process, marketing will be studied as well.

Services Marketing

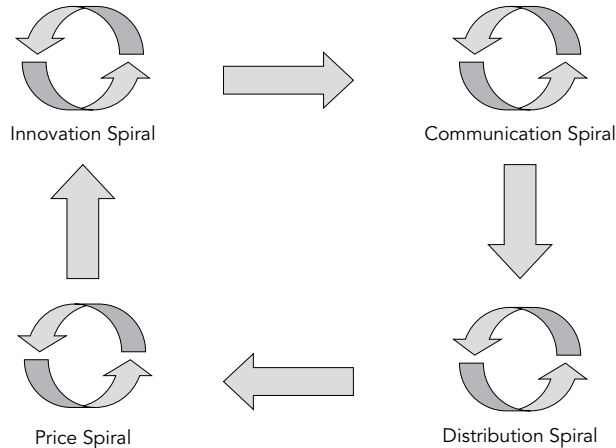
A service differs from a product in several respects, amongst others, that services are not tangible, services cannot be stored, and services are co-produced with the customer. Booms and Bitner (1981) extended the traditional marketing mix of 4 P's to 7 P's for services: Products, Price, Place, Promotion, People, Physical evidence, and Processes. Ennew and Waite (2007) focus in their book on financial services marketing on customer relationship marketing, establishing long term relationships based on confidence and trust with customers in targeted segments. They note that the complexity of the products create important challenges and underline the need to treat customers fairly.

Marketing Spirals

Poiesz and Van Raaij (2007) noticed that traditional marketing concepts are losing their effect and they developed a strategic marketing framework for the future which takes into account the changes in consumer behavior (Van Raaij & Poiesz, 2003; Poiesz & Van Raaij, 2007). They analyzed the reduced effectiveness of marketing instruments over time and described this in the marketing spirals (Figure 4.3).

Figure 4.3: The Marketing Spirals

Source: Poiesz and Van Raaij, 2007



The innovation spiral results from the constant pressure to develop new products, to differentiate from competition, and to escape the price pressure. As a result customers get overloaded by an avalanche of new products and do not even notice a new product anymore.

The communication spiral stems from the need to get customers' attention and results in an overload of information through all of the available media and channels. Conse-

quentially, customers suffer from information overload and do not even take notice of corporate communications.

When communication does not produce the required effect, companies attempt direct contact with customers through all available channels. Customers build up resistance to the resulting contact overload, forcing companies to create new channels, resulting in the distribution spiral.

In the end, the only way to obtain customers' interest is to lower prices. However, if one party starts, all are obliged to follow resulting in a downward price spiral.

Poiesz and Van Raaij (2007) suggest a two dimensional strategic approach to adapt effectively to these consumer trends: Product sophistication and customer relationship.

Product Sophistication

Poiesz and Van Raaij (2007) distinguish four phases in the sophistication of products and services:

1. Core product

The core product or service fulfills a specific, almost tangible function, for instance, a product like a chair and the service of a barber. The core product is often a simple and basic product.

2. Augmented product

The augmented product or service includes some value added products and services, such as branding, which gives the implicit or explicit message that this product or service is better than other products or brands. Adding a brand name, a longer guarantee on the product or adding values associated with the product or service, like freedom, harmony, and peace enhance the product.

3. Category packages

The combination of products and services that create synergy, such as in the case of car dealers:

- Repair services for a car, which are complementary to the core product
- Travel services, which are non-complementary to the core product but still in the same experience category (mobility).

4. Meta-packages

Meta-packages are a combination of products and services that create synergy across various experience categories. Meta-packages make life easy through one stop shopping and a bargain at the same time because the price would be much higher if sold as individual products.

In order to please customers, suppliers move from phase 1 to 4 in product sophistication.

Customer Relationships

The second dimension that Poiesz and Van Raaij (2007) present to support their strategic approach to marketing is that of the customer relationship. Here they also distinguish four phases in the development of customer relationships:

1. Ad hoc contact
This is a temporary contact focused on the sale of a single product or service at a specific moment in time. A second hand car dealer tends to be focused on the relationship with the customer up to the moment of the sale and the customer is only interested in getting the best deal.
2. Short-term relationship
Here the focus is on repeat business both from the supplier's perspective (continued revenues) as that from the customer (easy, reliable quality). A discount on next purchase, a subscription for regular services and a loyalty card can support this relationship. Yet, the customer may still easily churn to another supplier, should their loyalty program be more attractive.
3. Long(er)-term relationship
These relationships are characterized by a mutual commitment in which both customer and supplier acknowledge the mutual benefits. The supplier is not only focused on selling a product but also on fulfilling the customer's needs and the customer delivers feedback that will help the supplier to improve his product and service.
4. Lifetime relationship
A lifelong relationship is supported by both supplier and customer as long as the supplier offers products and services that match the changing needs during the customer's subsequent life stages.

Value Matrix

On the basis of the two dimensions described above, Poiesz and Van Raaij (2007) present the value matrix. They recognize that companies develop initiatives along the two dimensions, product sophistication and customer relationship. Disparate initiatives along the two dimensions, however, are easily copied by competitors. Poiesz and Van Raaij (2007) propose a simultaneous approach on both dimensions along the value diagonal (Figure 4.4).

Figure 4.4: The Value Matrix

Source: Poiesz and Van Raaij, 2007

		Product Sophistication →			
		Core product	Augmented product	Category package	Meta package
Customer Relationship ↑	Lifetime relationship	13	14	15	16
	Long(er) relationship	9	10	11	12
	Short term relationship	5		7	8
	Ad-hoc relationship	1	2	3	4

Companies can be positioned in each of the 16 cells in the matrix in terms of customer relationship and product sophistication. The matrix can show the company's current and the desired position, as well as the route to follow in order to reach the desired position. The diagonal arrow from cell 1 to cell 16 (the value diagonal) represents the optimal developmental perspective for an organization. In the cells 1, 6, 11, and 16 the initiatives in customer relationships and product sophistication provide optimal mutual support. In cell 16 mutually beneficial, lifelong relationships are supported by a combination of products and services from various categories which meet the client's changing needs during subsequent life stages.

Virtual Guardian Angel

Poiesz and Van Raaij (2007) underline that in the development across the value diagonal, the support of Information and Communication Technology (ICT) becomes essential. In fact, in order to continuously provide customers with a correct and personalized set of products and services that meet their changing needs over time, ICT is indispensable. The ICT facility that supports cell 16 to continuously match changing customer needs with combinations of products and services, has been titled a Virtual Guardian Angel (VGA). The VGA functions as an intermediary between the customer and suppliers who collectively compose a package. The VGA may be the "brand" for the customer and the suppliers are "hidden" behind the VGA. The VGA makes the selection from the total supply of products and services. Customer information is vital to the VGA and by consequence, privacy and trust are key issues. There is a learning curve on the customer's part, sharing limited information at the start and more information over time, if the information given is not misused and a positive experience is supplied.

An example of a VGA is described in the travel industry. Tour operators are successful in packaging components for business and holiday travel, including connecting flights, car rental, insurances, hotels, excursions, guided tours, shows, and restaurant bookings. The services will be completed with personal advice on holiday and business travel, based on detailed information about business and family plans, preferences, and budget.

4.4.1 APPLYING MARKETING CONCEPTS ON PERSONAL FINANCIAL ADVICE

The market of financial services in The Netherlands can be described as a mature and even saturated market. It is increasingly more difficult for financial service providers to grow or even stabilize revenue streams. New entrants to the financial services market deliver specific products with competitive prices and conditions, and customers look for the best deal at comparison sites on the internet.

Four Marketing Spirals

The marketing spirals are easily recognized in the financial services market. The innovation spiral is visible in the continuous launch of new products, promising a university degree for your children, a carefree mortgage or an early retirement at a tropical resort. The communication spiral is evident in the avalanche of commercials in the papers, magazines, on the radio, television, billboards, at sport events, and others. The distribution spiral is experienced as financial service providers get in touch through the branch office, over the phone, through the mail, internet, twitter, interactive TV, at the department store, in specialty shops, through independent agents, at one's work, during one's dinner, and on the golf course.

For new market entrants the only way to obtain the customer's interest is to offer better interest rates and conditions in comparison to the established players in the financial world. A price spiral will follow as the established players, reluctantly, but slowly and surely, are forced to follow. Recognizing that the marketing instruments in financial services suffer from a diminishing effectiveness and are spiraling downwards, there is a great urgency to turn the tide.

Four Levels in Product Sophistication

In the financial services industry, the four levels of product sophistication are well-known. Core products are available such as savings and loans. These products are augmented with additional functionality (loyalty points, tax free savings, student loans) and branding (we are always here for you). Category packages are available, delivering synergies across the financial services product portfolio, in several categories such as home (mort-

gage, combined with tax efficient savings, investment, and insurance products) and travel (credit cards, insurances, foreign currency). Examples of meta-packages are banks that offer telecom services and health insurance companies that build nursing homes in Spain.

Four Levels in Customer Relationships

The four levels in relationships are also recognized in the financial services sector.

Ad hoc relationships for instance may occur in the case of the second-hand car dealer who offers financing as well as insurance for the car. Financial institutions offer all kinds of bonuses and loyalty schemes to support cross selling and a prolonged customer relationship. Many of the customer relationships in the financial services sector are long. However, loyalty is decreasing because customers are becoming more price-sensitive and have lost trust in financial service providers.

Banks usually have a lifelong relationship with customers. The value of the relationship though, is eroding and at times even reduced to a checking account because the customer shops around and selects all other products from niche players. In the end this development is disastrous for the bank's continuity.

Value Matrix

Looking at the Dutch financial services market and the position of financial service providers in the value matrix, a distinction can be made between the well established parties and new market entrants.

The well established service providers (banks, insurance companies, and independent financial advisers) have, in the past, enjoyed a lifelong relationship with customers. At times the relationship even continued over several generations. However, the position of the established service providers is challenged by the competition of new entrants, increased customer's price sensitivity, and loss of trust. Thus, in general, the well established service providers are in fact descending in the value matrix from cell 16 to cell 6 and customer retention has become a key issue.

New entrants in the financial services market in The Netherlands have concentrated on a specific niche such as mortgages (e.g., Bank of Scotland), investments (e.g., Binck Bank), small businesses (e.g., Bizner), personal loans (e.g., DSB Bank), savings (e.g., Icesave), and insurances (e.g., Izio). Each of the new entrants, primarily through the use of direct channels, went through a period of rapid growth, supported by a highly efficient sales and delivery organization and offering products with competitive prices and conditions. These entrants started off in cell 1 and moved quickly to cell 6. However, loyalty is an issue because the attraction is primarily based on price. Some of the competitive interest rates offered could only be delivered if additional products were added with a high

margin (e.g., DSB Bank) or by accepting a higher risk than justified (e.g., Icesave). Both of these banks went bankrupt and the public was painfully reminded to be more critical in choosing a bank. If niche players want to increase loyalty, a move to cell 11 is of interest, requiring the niche player to add and integrate more (financial) services to their product portfolio, possibly even from third party product providers.

Innovation of Financial Products

In the diagnosis of personal financial advice, the need for an improved balance in the interests of customer, adviser, and supplier was established. In the past, several products have been developed and sold that mainly benefitted the adviser and the institution and left most of the costs and risks at the customer's door. Creating a better balance of interests can be done by transferring benefits to the clients and conveying a reasonable amount of costs and risks to the financial service providers. Benefits for the one do not necessarily lead to costs and/or risks for the other. Poiesz and Van Raaij (2007) suggest to look for combinations of products and services that deliver synergy as well as adapt to client's changing needs over time.

All-in-One Cash Account

In The Netherlands, the mortgage product is a packaged product delivering synergies. For example the "Bankspaarhypotheek" optimizes tax advantages for a mortgage, combined with a savings product, an investment product and/or life insurance. Not surprisingly the "Bankspaarhypotheek" is a popular mortgage product. Optionally other insurance products can be added to the package, amongst others, disability and home owner insurance. Also specific arrangements from the state and/or the community to support home ownership can be taken into account.

Still, another layer of additional products will lead to further synergies. In the United Kingdom for instance, Richard Branson with Virgin Money introduced the all-in-one account, which includes a payment account, savings account, personal loan, a credit card, and a mortgage. Customers only pay interest on the total balance of products, which reduces mortgage interest payments substantially and prevents high interest charges for personal loans, credit cards, and overdraft on the payment account.

In the UK, traditional banks followed this example with, what is called, the offset-mortgage. In The Netherlands such an account is not available for individuals, although cash management is a standard feature in business banking.

Implementing the all-in-one cash account in The Netherlands would certainly cannibalize a part of the margin of the well established financial service providers. However, it shows how a universal bank can do even better than the niche players. A customer selecting

a combination of savings and loan products with the best conditions at different niche players, will still receive less or pay more interest compared to an all-in-one account at a universal bank. Niche players will have a hard time to beat the all-in-one account as they only offer a limited number of products.

All-in-One Pension Account

Customers should be able to obtain a clear picture of their pension benefits, the gaps and alternatives scenarios to prevent a steep downfall in income at retirement. The value of the home, as well as other assets and liabilities should be incorporated. For instance, a home owner could take into account a reduction in expenses (if the mortgage is paid off) and a substantial capital (when the house is sold). However, if the mortgage is not paid off yet, the house may be an extra burden.

So, to obtain a complete picture on the financial situation at retirement, all assets and liabilities, as well as income and expenses need to be taken into account. On the basis of an integrated view, customers will have a clear understanding of pension gaps and can consider alternative ways to fill these gaps.

The economization of state and corporate pensions creates a massive market for financial service providers to deliver additional products and fill the gaps. Additional products should be flexible to adapt to changes in personal situation, goals, priorities, income and expenses, assets and liabilities, before and after retirement. Tax facilitated pension schemes like "Banksparen" and insurance products, combined with structured investment products can help to fill the gap effectively.

All-in-One Investment Account

The AFM (2009) published a report dedicated to advice on wealth accumulation. The report underlines the need to take into account the client's total financial position, including income and expenses, assets and liabilities. However, the report is based on the assumption that every customer is unique in the combination of goals, financial position, risk profile, knowledge, and experience. To be able to meet individual and specific customer needs, the report describes a meticulous process for personal investment advice that will take an adviser much time and effort to deliver. If these costs are charged to the customer, the additional return (compared to a savings account) on investments below €100,000 may evaporate and at the same time add substantial risk.

Instead, we suggest looking for similarities in customer segments, needs, and goals at specific life stages and events.

The investment products advised could well be a combination of passive investment funds (index trackers), that, rightfully suggested by the AFM, perform equally good and often even better than managed funds.

Taking a holistic approach to total wealth, the customer can have a different risk appetite for different investment goals. Some investment advisers create a separate portfolio for each investment goal which can lead to sub optimization.

The all-in-one investment account will allow all goals to be managed as if in different portfolios, while sub-optimization is prevented. Rebalancing is done for all virtual portfolios simultaneously and subsequent transactions can be bundled and sometimes even crossed out against each other.

Dynamic life cycle products make sure that risk is adapted to the level at which the investment goal is reached and as the investment horizon comes closer.

An all-in-one investment account will deliver standardized investment portfolios for different segments, life stages and life events, which can be personalized to fit the financial situation, goals, and needs of the customer, and managed dynamically over time. Should the customer decide to invest for his pension, the all-in-one investment account becomes a subaccount of the all-in-one pension account. If the customer has many investments, including investments dedicated for his pension, the all-in-one pension account can become a subaccount of the all-in-one investment account.

All-in-One Insurance Account

Many insurance companies already offer packaged insurances for families and businesses with a discount, depending on the number of products added. Several synergies are available in combining insurance products:

1. Many insurance products overlap in their risk coverage, for instance, the overlap of health care, travel, and car insurance.
2. Combining insurance products should be able to prevent gaps in coverage for instance, between travel and health insurance, when traveling abroad.
3. Customers who have all their insurances covered by one company will not want to run the risk of fraud detection.
4. Statistically, the customer's risk with many different insurance policies will decrease for instance, for a car, motorcycle, and boat insurance because the chance of damage occurring on all three at the same time is negligible.
5. Sales costs can be shared across separate product lines.
6. Service costs can be shared across separate product lines.
7. Loyalty increases because of improved personalized service and because a switch will result in a major administrative effort for the customer.
8. Customer intimacy increases based on detailed knowledge of customer and family, supporting effective cross sell opportunities.
9. Traffic to the website will increase, improving conversion ratios on cross sell opportunities.

The all-in-one insurance account will share the synergies resulting from a combination of insurance products between the customer, the adviser and the financial institution. The all-in-one insurance account may include the insurances selected in the all-in-one cash account (for instance the home insurance combined with the mortgage) and the all-in-one pension account (for instance life insurance).

All-in-One Business Account

Small and medium sized businesses (SMEs) are often stuck in the middle. Financial institutions have well developed services for the consumer banking segment at the one hand and specialized corporate services on the other hand. The SME segment is neglected, even though the largest part of employment and business activity is realized by the 186000 SME companies in The Netherlands (Capgemini, UniCredit Group and EFMA, 2010). The SME market is diverse, demanding a wide range of services for specific industries and life stages.

Initiatives like Bizner.nl delivered dedicated services for startups and small companies, offering basic services for payments, credit, cash management, and an integration of accounting systems for a competitive price. However, risk management is crucial to be able to make a profit in this segment and Bizner has been discontinued. MKBnext.nl developed services for the end of the life cycle, a dedicated marketplace for those who want to sell or buy an SME company.

The ideal all-in-one SME business account, should be able to support a company through all stages of the company's life cycle, starting with basic payment services, to be complemented, if so required, with accounting services, payroll, billing and collection, business mortgages, asset finance, trade finance, loyalty programs, insurances, industry specific services, (independent) legal and tax services, investments, mergers & acquisitions, and corporate finance.

Moreover, the all-in-one SME business account should be able to overcome main dissatisfiers that SMEs share about financial service providers i.e., the tedious processes of account opening and credit approvals.

The financial crisis has resulted in tightened credit controls which may even bring healthy SMEs into financial difficulties. At the same time, there is political pressure to support the SME market, to prevent an economic meltdown. In the World Retail Report 2010, a winning bank model for SME banking was developed, on the basis of fifty-eight interviews with senior management in twenty-one countries. The winning bank model is based on the combined power of modern credit risk management systems and strong relationship management (Capgemini, UniCredit Group and EFMA, 2010).

Meta-packages

The all-in-one accounts mentioned, can be characterized as category packages as described by Poiesz and Van Raaij (2007). An endless number of combinations of products and services can be combined across categories into meta-packages that create additional synergies. An easy step is to add services that are in line with current services for instance, adding home security services and home maintenance services on top of home insurances. New and creative services can be generated combining leisure, transport, and financial services for instance, in the financing, construction, and exploitation of exclusive country clubs.

Innovative combinations of products and services across categories can be created on the basis of trend-mixing (Schuurmans, 2007). Connecting the major trends in different industries, regions, and customer segments will often lead to interesting new business opportunities. For instance, the following trends can be combined in many different ways:

- China's economic development
- The need to reduce dependency on natural resources
- Accelerated capabilities in ICT

Alternative new business opportunities include using new technology to create fuel efficient transport in China or establishing an advanced ICT infrastructure that will reduce the need for transport. Whatever the initiative, the financial services category can always be added to the mix to improve synergies. Money glues cross-sector initiatives together. To be part of such a network, the financial services sector needs to meet the requirements on their part of the equation as efficiently and effectively as possible for all other parties involved.

Product Development Process

The economization on social security, state pensions, and corporate pensions creates ample opportunities for financial service providers to fill the gaps.

Delivering financial services in a customer centric and efficient way can still cover the costs, manage the risks, and leave a profitable margin for advisers and financial institutions. If on the other hand, financial service providers continue to sell unbalanced products, the Dutch regulator AFM is forced to act i.e., to withdraw these products and/or service providers from the market.

The banking commission (Adviescommissie Toekomst Banken, 2009) and the AFM suggest the implementation of a product approval process, so that new products can be screened on customer centricity before they are launched in the market. The AFM (Kockelkoren, 2010) suggests nine questions to be raised in a product approval process:

1. Does the product provide in a real need for the targeted segment?
2. Is the targeted segment well defined?

3. Are the consequences of the product in all scenarios acceptable and understandable for the target group?
4. Is the information on product and distribution obviously clear?
5. Are the client and adviser able to understand and evaluate the key aspects of the product, like returns, costs, risks and restrictions?
6. Can the product be sold without personal advice?
7. What are the assurances that the targeted segment is reached?
8. Do advisers have the capabilities to provide advice concerning the product?
9. Are there strong incentives that go against the client's interests?

Unfortunately, none of these questions include objective criteria, and answering them is left to the financial institution. If, for example, a commission of 80% or more is not acceptable, what percentage is? Consumer organizations should be involved in the product evaluation process. Perhaps the best start is to review existing products, before introducing new ones. For instance, is it in the client's best interest to continue a savings product with a marginal interest rate?

4.5 BUSINESS ETHICS

In the redesign of personal financial advice, special attention is required to the ethical question of balancing the interests of the customer, adviser, and the supplier of financial products. If no fair balance of interests exists between the customer, adviser, and supplier, the trust in financial service providers is lost.

The question on how to best deal with ethical dilemmas in business has resulted in several theories in modern business ethics (Velasquez, 2006):

1. According to the contract view, the relationship between a business and its customers is essentially a contractual relationship. The firm and the customer are expected to freely and knowingly agree on a contract, specifying the rights and obligations for both parties. The act on entering a contract is subject to several constraints:
 - a. Both parties must have full knowledge of the nature of the agreement.
 - b. Neither party must intentionally misrepresent the facts of the contract to the other party.
 - c. Neither party must be forced to enter the contract under duress or undue influence.

Hence, contractual theory claims that a business has four moral duties:

- a. Complying with the terms of the contract
- b. Disclosing the nature of the product

- c. Avoiding misrepresentation
 - d. Avoiding the use of duress and undue influence.
2. The due care theory, specifying the manufacturer's duties to consumers, is based on the idea that consumers and sellers do not meet as equals and the consumer's interests are vulnerable to being harmed by the manufacturer who has knowledge and expertise that the consumer lacks. Manufacturers have the duty to ensure that the customer's interests are not harmed.
 3. The social costs view describes the manufacturer's duties to encompass the risks of even those injuries, arising out of defects in the product, which no one could reasonably have foreseen or eliminated. By having the manufacturer bear all the costs from injuries resulting from (un)avoidable defects, as well as the regular costs of design and manufacture, all costs are internalized and added as part of the price of the product. In this way, manufacturers will strive to cut down costs due to social injuries.

The generic problems of the due care theory (Velasquez, 2006) are that because of the open norms of due care, there is no clear method for determining when one has exercised due care. In practice this often is determined in court, years after signing the contract. Moreover, the due care theory assumes that the manufacturer can determine the risks for the customer and decide on important issues for the customer. This appears to be somewhat paternalistic.

The major problems regarding the social cost theory (Velasquez, 2006) are that it is unfair for manufacturers to have to compensate for unforeseeable injuries and, as a result, valuable firms may be forced out of business because they can no longer afford liability suits.

Thaler and Sunstein (2008) suggested the concept of libertarian paternalism. Libertarian paternalism is paternalistic, in that it leads people to make correct decisions, on the basis of the decision hierarchy and default options presented. Yet at the same time, libertarian paternalism is liberal, in allowing people to opt out and make up their own mind.

4.5.1 APPLYING BUSINESS ETHICS TO PERSONAL FINANCIAL ADVICE

In the financial services market, it is clear that the assumption of the contract view is incorrect, that customers knowingly agree on the contract. Although the AFM underlines the importance of being obviously clear (AFM, 2010g), practice has shown that, at least in retrospect, financial service providers have not always been successful in the four moral duties of the contractual model: Disclosing the nature of the product, avoiding

misrepresentation and the use of duress and undue influence. Primarily as a result of customer's lack of knowledge and disinterest in financial products in combination with the complexity of financial products, the nature of the contract signed is often not well understood, the documentation not always self explanatory, while customers are under stress to obtain the necessary mortgage to buy their dream house.

Customer care regulations for financial services have set the rules and regulations to impose due care. For the financial service provider to determine the risks for the customer, a holistic view on all aspects of present and future personal finances needs to be taken into account.

The social cost theory has rapidly become reality in financial services, exemplified by the growing number of claims and the compensation schemes awarded to dissatisfied customers. Moreover, suggestions are made to impose a bank tax, for financial institutions to refund the costs made to society. The problems regarding the social cost theory are applicable for the financial services as well. Financial service providers must be protected from undue claims to compensate for unforeseeable losses, to prevent valuable firms to go bankrupt.

The concept of libertarian paternalism has been applied successfully in the financial services domain of savings, social security, credit markets, and pensions, nudging people to make the correct decision on the basis of default options, while making it possible to opt out with just one click.

In 2005, Prast, Mosch and Van Raaij (2005) were able to conclude that the public trust in financial institutions and the Dutch Central Bank was still substantial and that there exists a significant relationship between the trust in institutions and the confidence in the economy. After the financial crisis, trust in financial institutions has declined considerably. Now the question is how to regain that trust. Van Raaij (2009) has described seven determinants of customer trust: (1) competence, (2) stability, (3) integrity, (4) customer advocacy, (5) transparency, (6) value congruence, and (7) reputation. According to Van Raaij all determinants must at least be delivered on a satisfactory level, while a financial service provider needs to excel in at least one or several factors to make a difference with competitors.

4.6 INFORMATION TECHNOLOGY

Information technology is essential in the optimization of business processes, especially if the business processes focus on information processing, which is the case in personal

financial advice. Moreover, information technology can support the needs of the connected customers and take into account the requirements from the perspective of behavioral finance, marketing, and business ethics.

From the myriad of technologies now available, the focus will be on those that are essential in the redesign of the financial advice process i.e., customer centric design and business intelligence.

4.6.1 CUSTOMER CENTRIC DESIGN

Customer centric design is a mix of methods and technologies, focused on making sure that customers are able to effectively use an application according to its purpose and have a positive experience in doing so. Bowles (2011) delivers a structured approach for customer centric design, including the creation of personas, the spark needed to make good wireframes and usability testing.

4.6.2 APPLYING CUSTOMER CENTRIC DESIGN ON PERSONAL FINANCIAL ADVICE

Applying customer centric design in the redesign of personal financial advice is essential because financial products are important but of low interest to the public.

Many of the now available software solutions supporting personal financial advice are built to support professional financial planners. These software solutions start with a long list of questions required to complete the customer profile. These solutions are designed to support expert advisers and are not designed to support self-service channels. In self-service channels customers tend to lose interest after more than five questions.

Customer centric design will customize the personal financial advice application for specific target groups and show results within a few clicks. For instance, the personal financial advice application will be different in content and presentation for target groups in different life stages (see Figure 4.5):

Moreover, customer centric design techniques will encompass everything that makes the process easy, cool, fun, and exciting, for instance:

- A virtual adviser who shows customers what to do and how to do it, in contrast to contextual help texts.
- Prefilled fields and forms based on available customer information and default values, representative for that specific segment.

Figure 4.5: Customer Centric Design



Sophie is a student, living on campus and working part time as a waitress. How does she survive and enjoy life without financial problems?



Peter and Saskia both enjoy a full time job, long holidays to faraway places and now want to settle down and look for a home in the suburbs to raise a family.



John, Debbie and their son Marc are expecting a new family member. They have been able to make ends meet, as well as being able to save for later.



Martha and Bob enjoy each day of their retirement on their world cruise. They have set up a special trust for their grandchildren.

- Automated downloads of relevant data from bank accounts, tax forms and pension statement.
- Customers make selections by clicking, dragging and dropping, instead of having to do extensive data entry.
- Results shown immediately, in a graphical way, allowing the customer to play with options, instead of a long spreadsheet with financial data.
- Results of alternative scenarios shown and compared on the basis of dynamic simulations.
- Remote support available by an expert who can collaborate online, instead of having to start all over again with a call center agent.
- Short video films capture the essence of product information or complex decisions, instead of brochures.
- Incentives available for clients to deliver feedback on products and services, thus supporting co-creation, instead of complaint forms.

4.6.3 BUSINESS INTELLIGENCE

Business intelligence is the combination of methods and tools with the ability to capture and automate complex rules and decision making processes based on (real time) processing of large quantities of data. Howson (2008) captured the best practices for the delivery of business intelligence applications, from analytical reporting to dashboards and a prediction of future developments.

Figure 4.6: Cockpit Airbus 380

Source: www.airbus.com

Modern aircrafts are stacked with computers that fly the plane not only once on track (auto-flight) but even take over the controls in the most critical situations, for instance, when a crash is imminent (collision avoidance). This is because there are limits to the amount of information a person, even an expert, can process in a fraction of a second in order to make the right decision. More and more decisions during standard operations are supported by computers, for instance the brake-to-vacate system of the Airbus 380, enabling pilots to select a runway exit while the aircraft is making the landing approach (see Figure 4.6). Brake-to-vacate uses the auto-flight, flight controls and auto-brake systems to regulate deceleration after touchdown. This allows the aircraft to reach a specified exit at the correct speed under optimal conditions.

4.6.4 APPLYING BUSINESS INTELLIGENCE ON PERSONAL FINANCIAL ADVICE

To be able to deliver personal financial advice, large quantities of data have to be processed, including customer profile, tax, and social security, products, feeds from financial markets, credit bureaus, and more. In much the same way as the pilot and passengers of an Airbus, advisers and customers would like to be supported by computers that get them quickly, safely and securely from financial position A to the targeted financial position B. The financial planning software solutions available in the market today support quantitative analysis on the basis of available data. However, most of these products can only calculate alternative scenarios on the basis of products selected by the adviser. This is not ideal, since many advisers have selected products that are far from the perfect match

to the customer profile. Decision rules on what products to offer in a specific situation need to become available to ensure compliance with internal and external regulations, and prevent a mismatch in the future.

There are specific challenges in defining the business rules to support the selection of products that comply with customer care regulations (Schuurmans & Verbeek, 2009):

1. Open rules: In the customer care regulations open rules are defined that leave a lot of room for interpretation. For instance, the ultimate criterion for good financial advice is that it is well suited, i.e., a good match to the customer requirements. Computers are only capable to determine whether a product is well suited, if the criteria are specified concretely.
2. Inconsistency in rules: Some of the customer care regulations are not consistent with other customer care regulations for instance:
 - a. The VFN Gedragscode", the "NVB-normen voor consumptief krediet", and the "Gedragscode Hypothecaire Financieringen", all try to prevent customers to exceed credit facilities. However, in specific cases a customer would not be able to increase his mortgage according to the "Gedragscode Hypothecaire Financieringen", while according to the "VFN Gedragscode", the client will still be able to get a loan up till € 28,000.
 - b. The AFM (2008) criteria for good investment advice in the report on "Beleggingsverzekeringen" do not synchronize with the criteria for good investment advice according to the DSI (Dutch Securities Institute). The DSI explicitly includes the goal of the investment and the investment horizon as criteria to determine good investment advice, while the AFM focuses on the risk profile.
3. Limitations to the rules: Some regulations are limited in their reach. For instance, the "Wet Financieel Toezicht" is limited to the supervision of investment products up to € 50,000. Some investment funds requiring a minimum deposit of € 50,000 have thus escaped supervision and left investors penniless (e.g., Palm Invest).

The government, politicians, regulators, consumer organizations, and the financial services industry work together to improve the rules and regulations in the interest of all parties concerned. Recently, for instance, the AFM published a new report with guidelines on acceptable mortgage expenses (AFM, 2010b). Thus far, the financial services industry has resisted too much interference that might confine competition. The financial crisis has shown, however, that this luxury of freedom was misused by some parties and left clients, other financial institutions and the tax payer with huge negative financial consequences. Compared to the airplane industry, the financial crisis consisted of a series of plane crashes all across the world and therefore, additional security measures have to be taken.

Still, even within the limitations of present day regulations, it is possible to define business rules, selecting products that match customer profile, and comply with regulations. In fact, in real-life personal financial advice, every adviser has to make the decision on what product types and products are most appropriate. A business rules engine would require that the decision process be explicit. Every financial service provider can make their own assessment on what is the optimal offering in a certain situation, thus specifying their company specific decision hierarchy. A practical approach is to start with specific, standardized cases such as the couple with double income and no kids, who want to buy their first home. Several other straightforward cases can be defined in every life stage. Gradually, more complex situations can be added to establish a set of business rules that support the selection of a matching pre-specified personal financial plan, including a selection of products to be offered.

In parallel, simple business rules can already be established to prevent the reoccurrence of obvious mistakes made in the past, for instance:

- Block acceptance of mortgages over a specified percentage of market value of the house.
- Exclude certain investment products for customers with low risk appetite.

However basic or extensive the business rules, there will always remain situations that do not match the criteria defined in the business rules and those situations will require expert attention.

In conclusion, automated business rules are able to ensure compliance with internal and external regulations, support the selection of well suited advice and appropriate products, create an end-to-end audit trail, monitor the progress of the plan and present actionable alerts, thus supporting advisers and customers optimally, while providing the required management information.

4.7 NORMATIVE FRAMEWORK OF CHANGES IN PERSONAL FINANCIAL ADVICE

In this paragraph a normative framework is developed that can be expected to deliver personal financial advice in such a way, that the problems in economic viability and quality, as identified in the chapter on diagnosis, are substantially reduced or even completely eliminated (see Table 4.2). The normative framework on personal financial advice will need to comply with the definition of personal financial advice delivered in Chapter 1. To support a drastic reduction of the costs in personal financial advice, while ensuring

the quality delivered, the improvements based on the theories and models presented, are combined. Firstly, Business Process Redesign suggests that personal financial advice is more effectively and efficiently delivered by means of standardization and personalization, supporting clients in similar situations with standardized plans. Secondly, trends in customer behavior imply the use of assisted self-service, which changes the role of the customer from passive to being in control, while the adviser will support customers in their decision making process. Thirdly, the lessons learned from behavioral finance are taken into account. Fourthly, the strategic marketing framework supports the development of lifelong mutually beneficial relationships. Fifthly, business ethics delivers the concepts to regain and maintain public trust. Finally, optimal use of information technology ensures compliance to internal and external regulations, delivering financial advice in a customer centric and attractive way.

On the basis of the normative framework an alternative approach to personal financial advice can be derived, delivering standardized advice through self-service channels for specified segments, life stages, and life events, while room for personalization is available to support customer preferences. The redesign of the traditional financial advice process into a mass customized service can be expected to have a significant effect on direct labor costs, as most of the work will be done by the customer in a self-service environment, supported by a virtual guardian angel. Customers will be supported in the selection of relevant scenarios and appropriate products, creating the basis for a lifelong mutually beneficial relationship with the financial service provider. Optimized packages of products for the short term (cash management), the long term (pension and investment advice), and business aspects will be available. Meta-packages, across the boundaries of industries, create an endless number of business opportunities. Customers will be in control of their finances with support available at their fingertips. A face-to-face meeting with the adviser will focus on clarification, reassurance, and validation. Non-standard cases will always need an expert's personal attention. Expert support for non-standard cases may be charged to the customer on the basis of time spent.

Still, the question arises whether the fundamental changes in personal financial advice, derived on the basis of the theories and models presented in this chapter, can be combined in such a way in real life that the quality of personal financial advice is ensured and the costs are reduced to an acceptable level for the customer and the financial service provider. Points of attention are, amongst others, the following:

- Can standardized plans be delivered according to quality standards?
- Will customers overcome their low interest in finance and take control?
- Will advisers make the change and support clients in their decision process?
- Is the technology able to support a virtual guardian angel?

Field of Expertise	Normative Framework of Personal Financial Advice
Personal financial advice	Continuous process of planning, executing, monitoring, and controlling income, expenses, assets, and liabilities Managing financial risks, Providing support for changing goals, needs, and capabilities of customers in subsequent life stages.
Business Process Redesign	Develop standardized advice for each segment, life stage, and life event. Offer personalization to adapt standardized advice to customer preferences.
Trends in Customer Behavior	Offer advice through assisted self-service: Self-service. Remote support. Face-to-face support. Support community building through online channels. Consistent experience of values through all channels. Adviser in role of boundary spanner.
Behavioral Finance	Respect the seven laws of the emotion economy. Support mental accounting. Focus on available income in subsequent life stages. Determine customer risk profile effectively. Include life cycle and structured products. Present results in terms of performance. Limit number of options and present default options.
Marketing	Aim for life long relationship. Increase product sophistication through packages products & services. External evaluation/certification in product development process. Dynamically propose relevant standardized personal advice and product combinations as customers move through life stages and life events.
Business Ethics	Disclose the nature of the product. Avoid misrepresentation through a holistic view on finances. Avoid the use of duress and undue influence. Determine the risks for the customer. Comply to due care, offering well balanced products. Offer "best advice" default options, with simple opt out. Regaining trust through fulfillment of seven determinants.
Information Technology	Customer centric design for each (sub) segment with use of: Virtual adviser and instruction videos. Prefilled fields and use of dragging & dropping. Immediate results and scenario planning. Incentives for feedback and co-creation. Use of automated business rules to: Ensure compliance to internal and external regulations. Deliver an end-2-end audit trail. Select appropriate products. Support online monitoring. Deliver actionable alerts. Support advisers optimally in their job. Deliver required management information.

Table 4.2: Overview of Fundamental Changes in Personal Financial Advice.

- How to support customers in their ambivalent attitude towards risks?
- How to present complex combinations of products intelligibly?
- Can customer care regulations be captured in business rules unambiguously?
- Can the costs to deliver personal financial advice be reduced substantially?

The normative framework is put to a test in the case studies presented in the next chapter.

CHAPTER 5



TAKING ACTION: CASE STUDIES

SELECTION OF CASE STUDIES

PENSION ADVICE

INVESTMENT ADVICE

PERSONAL FINANCIAL ADVICE

EVALUATION OF THE CASE STUDIES

5. TAKING ACTION: CASE STUDIES

After the need for fundamental changes in personal financial advice has been assessed in Chapter 1, the diagnosis of personal financial advice delivered in Chapter 3 has pointed out that the costs need to be reduced substantially, while the quality needs to be improved at the same time. In Chapter 4, a normative framework of changes in personal financial advice has been constructed on the basis of theories and models from several disciplines. In this chapter, the normative framework is put to a test in real life.

5.1 SELECTION OF CASE STUDIES

Over the last 15 years, several initiatives evolved that altered the way financial advice is delivered. Looking back, it is fair to say that the start of the new millennium coincides with a turning point in the practice of personal financial advice. Since the rise of internet, several financial service providers developed dedicated applications and processes to support financial advice, sales, and delivery. Since most financial organizations are product oriented, a long list of product oriented self-service advice tools were developed for saving plans, loans, mortgages, pensions and investments.

These self-service applications are of interest to show which of the changes suggested in the normative framework have already been implemented and to which effect. In this chapter, we will capture the product oriented advice initiatives in the domain of pensions and investment advice.

In studying these initiatives it also becomes clear which of the changes presented in the normative framework have not yet been implemented, and need an extra effort to be put to a test. One domain that proved to require extra attention is the effective determination of the customer risk profile. A dedicated case study focused on finding more effective ways to determine the customer risk profile was initiated in 2009. The second domain that has not yet been implemented as presented in the normative framework, is the standardized and yet personalized approach to personal financial advice, that encompasses all financial products in a coherent way. Two case studies were delivered covering these aspects, one in 2008 at an insurance company and one in 2009 at a bank. In this chapter, the next two paragraphs will focus on the initiatives in product centered advice, which have already been implemented in real-life. The first paragraph will focus on initiatives in the pension domain, followed by a paragraph discussing initiatives in

investment advice. The subsequent paragraph will present the results of the case study which focused on the effective determination and use of risk profiles.

After that, the case studies on personal financial advice at the insurance company and the bank will be presented

In the description of the case studies, the action research cycle (Avison et al., 1999), presented in Chapter 2 becomes apparent. This research cycle starts from the desired effect and runs to the think up of concepts & tools, the design of the new situation and the effects realized. The early case studies, delivered the basis for improved concepts and tools used in later case studies. Each of the paragraphs describing a case study will include an evaluation comparing the results of the case study with the normative framework, developed in the previous chapter.

The final paragraph of this chapter will evaluate the results of all the case studies and suggest next steps.

5.2 PENSION ADVICE

A good example of the development in product oriented advice through self-service channels, is in the area of pensions. Early initiatives developed in The Netherlands will be presented, followed by later initiatives in the USA, to conclude with a gap analysis between the normative framework and reality in pension advice.

5.2.1 INNOVATIONS IN PENSION ADVICE

Pension Planners

In the late 1990ties, the cut back on state and corporate pension plans had already started. Internet was immediately recognized as a platform to inform customers on their actual pension benefits, and the gap between expectations and reality. Several pension planning applications were developed for insurance companies that included the following functionality:

- Capture personal information on customer and partner.
- Present available pension of customer and partner.
- Determine starting date and level of required pension.
- Deliver a gap analysis between required and available pension.
- Present alternative products to fill the gap.
- Support simulations:
 - Earlier/later retirement.

- Higher/lower pension required.
- More/less deposits.
- Start application of selected supplementary pension products.

Even though graphical support was already available, clearly showing the increasing gaps over time, the pension planning applications never became very popular. The major problem was that the basic questions that needed to be filled out regarding the pensions for customer and partner, are difficult to answer without the support of an expert. The Uniform Pension Overview (UPO), a standardized statement of pension benefits, was not yet available and people had a hard time interpreting the data on their pension statement, if they received one at all. As a consequence, the pension planners only worked well with the assistance of an expert.

Worksite Marketing

A worksite marketing application was developed for a large insurance company. This pension planning application for large corporate clients supports employees, the Human Resource department, and corporate management with information on the pension plan. Corporate management can examine the aggregated data on the corporate pension plan, while the Human Resource department is able to enter new employees joining the pension plan on line.

From their workstation on the corporate network, employees are able to view the present status of their pension plan. Employees can set goals, analyze gaps, select alternative scenarios, and choose additional products to fill the gaps. This is a major step forward because the employees' pension plan information is prefilled and available in the pension planner. However, information on former pensions and partner pensions remain to be added manually.

Pension Aggregation

Since 2005, a dedicated website, pensionviewer (www.pensioenkiijker.nl), is available where households can aggregate their pension benefits. Visitor numbers are growing, although the time spent on the website is often less than two minutes. This is too short to seriously examine the household pension situation. Nevertheless, there is much information on pensions available in a customer friendly way, via text, videos, tips, and examples. Practical use of the Pensionviewer is frustrated by the fact that individual pension provisions do not deliver a Unified Pension Overview, required for pensioenkiijker.nl. Moreover, assets and liabilities are not fully taken into account, hence, income before and after retirement are compared on the basis of gross income, which may lead to incorrect conclusions about the presumed pension gap.

Pension Register

In January 2011, an online pension register (www.mijnpensioenoverzicht.nl) has become available, which aggregates, for each person individually, all information on state (pillar 1) and corporate pension plans (pillar 2). This is a great improvement, for individuals can now receive an overview of their pension benefits. However, aggregation per household is not (yet) supported and essential information to assess the situation after retirement is missing, including present income, personal pension provisions (pillar 3), as well as information on personal wealth, house, loans, and mortgages. Consequently, a comparison of net income before and after retirement is not supported in the pension register and neither is scenario analysis, presenting alternative ways to fill the gap between the available and required pension.

Moreover, the legal rights of ex-partners are not yet fully taken into account.

Pension Quick Plan

An innovative approach to pension planning is available at E*Trade, launching a retirement quick plan: A simple, direct and appealing approach to develop a personalized retirement plan (see Figure 5.1). Depending on the life stage, selected lifestyle, and the answers to five basic questions, a standardized pension plan is generated, showing a

Figure 5.1: E*Trade Retirement Quick Plan

Source: www.etrade.com

E*Trade's Retirement Quick Plan:

1. Select life stage
2. Select life style
3. Enter five basic questions
4. Review standard plan
5. Personalize plan
6. Action plan

pension gap and the monthly contributions required to fill the gap. Next, personalization of the plan is supported in an interactive and intuitive way and practical tips are given to improve the retirement perspective. In the final step, a new investment account can be opened with a few clicks.

Strong points of the E*Trade quick plan are the customer centric design, the use of default data that support a standardized plan, the immediate and interactive results, scenario analysis, the facilities to personalize the plan, as well as the online support to immediately put the plan into action. Compared to the Dutch situation, pension planning in the USA is relatively simple because pension schemes and social security are basic, tax implications limited, and the products offered to fill the gap are in line with American culture, focused on investments.

5.2.2 GAP WITH THE NORMATIVE FRAMEWORK IN PENSION ADVICE

Reports of the AFM (2010a) and the Goudswaard Committee (Commissie Goudswaard, 2010) underline the importance for Dutch households to have a close look at their pension benefits and find out whether the result is according to expectations. The need for reliable information on pensions is not limited to a specific segment because the changes in state and corporate pension plans, as well as the devastating effects of the drop in financial markets and low interest rates, are affecting every household. As a consequence, there is an urgent need for pension planning. Present initiatives in The Netherlands move in the right direction, but do not yet deliver an integrated view in a customer centric approach. The AFM and Goudswaard Committee reports, urge the inclusion of all assets and all liabilities into the planning effort.

The initiatives in pension advice are evaluated in Table 5.1 on the basis of the normative framework of changes in personal financial advice delivered in the previous chapter. The early pension planners were the first online solutions available, worksite marketing added several important features, while the retirement quick plan includes a customer centric design. However, none of these platforms supports the continuous process and a holistic view on income, expenses, assets and liabilities.

The example of E*Trade shows what a self-service pension planning environment could look like, however, for this approach to be implemented successfully in The Netherlands, additional features are required:

- Download and pre fill data from pension register for client and partner.

Evaluation of Initiatives in Pension Advice, Based on the Normative Framework of Personal Financial Advice	Pension Planner	Worksite Marketing	Pension Quick Plan
Continuous process of planning, executing, monitoring, and controlling of income, expenses, assets, and liabilities.			
Managing financial risks.		x	x
Providing support for changing goals, needs, and capabilities of customers in subsequent life stages.			x
Develop standardized advice for each segment, life stage, and life event.			x
Offer personalization to adapt standardized advice to customer preferences.			x
Offer advice through assisted self-service: Self-service + Remote Support + Face-to-face.	SS	SS/RS/FF	SS/RS/FF
Support community building through online channels.			
Consistent experience of social and societal values through all channels.			
Adviser in role of boundary spanner.		x	x
Respect the seven laws of the emotion economy			◐
Support mental accounting.			
Focus on available income in subsequent life stages.	x	x	x
Determine customer risk profile effectively.			
Include life cycle and structured products.		x	x
Present results in terms of performance.		x	x
Limit number of options and present default options.	x	x	x
Aim for life long relationship.	x	x	x
Increase product sophistication through packages products & services.		x	x
External evaluation/certification in product development process.			
Dynamically propose relevant standardized personal advice and product combinations as customers move through life stages and life events.			x limited to pensions
Disclose the nature of the product.	x	x	x
Avoid misrepresentation through a holistic view on finances.			
Avoid the use of duress and undue influence.			
Determine the risks for the customer.		x	x
Comply to due care, offering well balanced products.			
Offer "best advice" default options, with simple opt out.		x	x
Regaining trust through fulfillment of seven determinants	◐	◐	◐
Customer centric design for each (sub) segment with use of:			
• Virtual adviser and instruction videos.			
• Prefilled fields and use of dragging & dropping.		x	x
• Immediate results and scenario planning.	x	x	x
• Incentives for feedback and co-creation.			
Use of automated business rules to:			
• Ensure compliance to internal and external regulations.		x	x
• Deliver an end-2-end audit trail.			
• Select appropriate products.	x	x	x
• Support online monitoring.		x	
• Deliver actionable alerts.			
• Support advisers optimally in their job.		x	
• Deliver required management information.		x	

Legend: ◐◑◒◓ = level of completion; x,xx,xxx = level of maturity.

Table 5.1: Evaluation of Initiatives in Pension Advice, Based on the Normative Framework of Personal Financial Advice.

- Include all assets such as personal pension provisions, house, savings, and investments; a paid off house may turn out to be a safety net.
- Take into account all liabilities, knowing that the deduction of mortgage interest is limited to 30 years and people have decided to pay off their mortgage only partially to reduce monthly costs.
- Capture changes in income and expenses before and after retirement
- Validation of personal information which could influence the benefits (for example, years abroad and former partners).
- Add more tax facilitated, packaged products, as “Banksparen” and “Levensloop” as attractive alternatives to fill the gaps.
- Deliver online remote support.

Even though the situation in The Netherlands is more complex than in the USA, standardized pension and action plans can be developed for different segments and life stages, on the basis of the relevant default data. A virtual guardian angel as presented in paragraph 4.4, should be available to support personal financial advice in the pension domain and complementary domains of personal finances.

5.3 INVESTMENT ADVICE

In the “good old days” investment advice was considered to be the domain of experts only. A day in the life of investment advisers could start with a double espresso and the Financial Times, a discussion with industry experts to evaluate alternative strategies, followed by a series of calls to clients, a lunch with a top client, returning for a quick stop at the office to execute orders, before going off to the golf course to meet another client. The freedom of the experts was guaranteed as long as they made their margin.

After Nick Leeson’s unsupervised speculative trading in Singapore, which caused the collapse of UK’s oldest investment bank, Barings, in 1995, and with the introduction of customer care regulations, the need to change the investment process became evident. To ensure that external and internal regulations are followed, an audit trail needs to be included in every step of the investment advice process. An end-to-end redesign of the process has taken place with checks and balances built into the supporting systems.

5.3.1 INVESTMENT ADVICE AT A US FINANCIAL SERVICES PROVIDER

In 2003, a consulting assignment took place at a USA based financial service provider, concerning the innovation of the investment advice process. Below the investment advice process is depicted (Figure 5.2). In the top layer “Capturing assets” specifies the steps to record customer information, available assets, investment goals, risk profile, strategic asset allocation, tactical asset allocation, adaptation to individual preferences, pre-compliance check, investment proposal, and execution of orders.

The second layer focuses on managing investment portfolios, including monitoring, alerts, rebalancing, and reporting.

The bottom layer describes the managerial processes: compliance reporting, investment model management, practice management, education, and marketing.

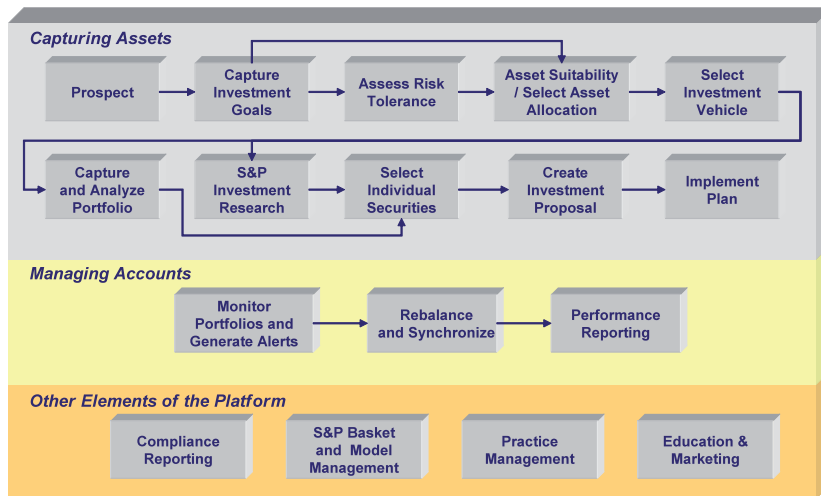
5.3.1.1 Wealth Adviser Workstation

In the first phase of redesign, the focus was on professional assistance and tools for the investment adviser. A streamlined process and a wealth adviser workstation (see Figure 5.3) were designed to provide the investment advisers with optimized support in every aspect of their work. The wealth adviser workstation includes the following facilities:

- Role based access to the workstation application makes sure that the information and levels of discretion to make investment decisions is in accordance with the level of expertise of the adviser.
- On the first page, a personalized overview of latest market news and a prioritized list of alerts is available: clients the adviser needs to call because their investment portfolio requires attention.
- With one click on the alert at the top of the list, a screen shows the client’s present portfolio, the reasons why the portfolio needs attention, for example if the portfolio is not in sync with the risk profile, the proposed transactions to rebalance, and the resulting portfolio.
- During the call with the client, adaptations can be made according to customer preferences and at advisers’ discretion, online pre-compliance checks are made, and if the client agrees, transactions are pushed to the market immediately with one click.
- Additional facilities for the adviser are available under separate tabs: new prospect, open account, proposals, and others. Each function supported step by step with adequate information and contextual help.

Figure 5.2: The Investment Advice Process

Source: US Financial Services Provider



- Additionally, the adviser is supported with E-learning modules and practice management, in which personal performance is compared with key performance indicators and peers. Best practices are shared across the team.
- Overnight all portfolios of all clients are checked automatically against the targeted investment goals and risk profiles. If so required, a rebalancing proposal is generated and presented to the designated adviser.
- The investment proposals are automatically generated on the basis of Model Allocation Portfolios (MAPS), standardized portfolios defined by top investment experts, for specific client segments, investment horizons, available funds, and risk profiles. From a customer advocacy point of view, these MAPS include low cost investment products (trackers).

Introducing the new process supported by the wealth adviser workstation was expected to result in serious resistance from investment advisers. The new way of working obviously limits the adviser's creativity in trying to beat financial markets. On the other hand, advisers were already accustomed to increased controls by their managers, trying to prevent a second Nick Leeson from striking again. The more senior advisers were still allowed to change the standardized investment proposals on the basis of personal insight, although, within predefined limits. It was clear to all, that the new process would limit the adviser and corporate liability substantially. The new way of working resulted in an efficient process, delivering increased customer satisfaction, transaction volumes, and

bonuses. The redesigned process for investment advice was implemented without too many problems and has proven to be effective.

Figure 5.3: Wealth Adviser Workstation
Source: US Financial Services Provider

The screenshot displays the Wealth Adviser Workstation interface. At the top, there are navigation tabs: Home, Proposals, Client Accounts, Alerts, Investments, Reports, and Practice Management. Below these are sub-tabs: My Home, Create a New Proposal, Open an Account, and Trade / Order Search.

Get Started sidebar options:

- Open a New Account
- Create a New Proposal
- Trade / Order Search
- New Prospect

S&P Commentary section:

- Market Snapshot** Monday August 19, 2003 (11:52 am ET)
 - S&P Stays Neutral on Tobacco Stocks
- Industry in Focus** Wednesday August 19, 2003 (8:41 pm ET)
 - The Smoke Around Big Tobacco Slows
- Stovall's Sector Watch** Thursday August 19, 2003 (1:55 pm ET)
 - Health-Care Supply Renewed Vigor
- S&P Indexes:**
 - S&P 500, S&P MidCap 400, S&P SmallCap 600

Alerts table:

Alerts	AUM	Type of Alert	Date	Affected Accts.
Change to Neutral Fair Value 25	\$2,500,000.00	S&P Recommended Basket Change	09/02/03	3 accounts
Change to Aggressive Asset Allocation	\$2,000,000.00	S&P Recommended AA Change	09/02/03	3 accounts
Change to Aggressive-ETF on Taxable MAP	\$1,500,000.00	S&P Recommended MAP Change	09/02/03	3 accounts
BBB Downgraded	\$2,500,000.00	S&P Instrument Rating Change	09/02/03	3 accounts
Max Saunders & Family Save For Bond	\$500,000.00	Variance - Firm Limit Exceeded	08/29/03	1 account
Joe Doe Save for retirement	\$250,000.00	Variance - Custom Limit Exceeded	08/29/03	1 account
Joe Doe Save for retirement	\$250,000.00	Account Funding	08/29/03	1 account
Joe Doe College Fund	\$250,000.00	Variance - Firm Limit Exceeded	08/29/03	1 account

Today's Market (01:27 to NY close):

- S&P 500: -33.84
- DJIA: -308.76
- NASDAQ: -51.50
- 10-yr Note: -0.14

What's New on FBB section:

- CreditWire Subscriptions Now Available to FBB Users** (08/15/2003) | Standard & Poor's CreditWire, a real-time credit ratings and research information service available on a subscription basis, serves fixed income industry professionals worldwide. [More...](#)
- 07/07/2003: [S&P Aggressive Growth model outperforms S&P 500 by 5%](#)
- 07/01/2003: [Bank of America replaces JP Morgan](#)
- 06/14/2003: [FBB LXP Team Celebrates](#)
- 06/13/2003: [FBB First Prototype Delivered](#)

Proposals In Progress table:

Household Name	Investment Objective	Account Number	Proposal Status							
			Subtality Questionnaire	Risk Profile	Investment Policy	External Account	Target Asset Allocation	Investment Selection	Proposal	Archived Proposal(s)
Max Saunders & Family	Bond Fund	-	○	○	○	○	○	○	○	View
Dave Thomas	Retirement	12345678	●	○	○	○	○	○	○	View
Ron McDonald	Savings	87654321	●	●	●	○	●	○	○	View

5.3.1.2 Online Wealth Adviser

The second phase in the redesign of investment advice focused on the online support of the customer. A self-service version of the wealth adviser workstation was made available for customers through the internet. In this way a much wider group of customers could enjoy the benefits of a professional advice platform. Moreover, customers were able to discuss alternative investment scenarios on the phone with advisers, while looking at the same screen. The customers can receive the alerts on the need to rebalance their portfolio through internet (and/or on their mobile device). Actionable alerts were developed for clients to be able to respond with one click, thus deciding on proposed transactions. This implementation was a great success, leading to more customers and transactions, while keeping advisers busier than ever. Since 2003, many of the major investments firms have successfully adopted similar services, from the wealth management firms like BofA Merrill Lynch, to the investor brokers like Charles Schwab and E*Trade.

5.3.2 GAP WITH THE NORMATIVE FRAMEWORK IN INVESTMENT ADVICE

Strong points of the wealth adviser and the online wealth adviser platform are:

- Standardization of model investment portfolios, with room for personalization
- Best advice default options, suggesting well diversified, cost effective investment products.
- Assisted self-service, primarily through online services and remote support, reducing face-to-face meetings to a minimum.
- Adviser and customer centric design, including step-by-step support during every phase of the investment process, personalized information, e-learning modules, and performance feedback.
- End-to-end support of the advice process, including daily monitoring and control, managing diversions from goal and risk profile on a continuous basis.
- Support by automated business rules, which ensure that no transaction can take place which is not in compliance with internal and external regulations.
- The wealth adviser platform helps customers to make money and save money, while managing risks for the customer and the financial service provider efficiently.

The (online) wealth adviser platform shows that complex real time decision making, based on a high volume of data, including customer profile, customer portfolios, online market data, and model portfolios, can be supported in a coherent way, through an automated set of business rules. Managing the set of business rules and the model allocation portfolios remains the task of the most experienced professionals. Limitations of the wealth adviser platform are, that the wealth management platform does not take into account all customer assets (and liabilities).

In Table 5.2 the adviser workstation and online wealth adviser solution are evaluated on the basis of the normative framework. The table shows that the wealth management platforms, although limited to the domain of investment services, cover almost all of the changes in personal financial advice suggested in the normative framework.

Although the wealth adviser platform, has proven to be technically, practically, as well as economically feasible and successful, it has not yet been implemented at the majority of the Dutch investment service providers.

The Dutch regulator, in their report on wealth advice (AFM, 2009), suggests an extensive investment advice process and a personal meeting of the adviser with the client, under the supposition that every client is different. The regulator recommends the use of supporting software, however, no demands are made on the kind of software used. The AFM

Evaluation of Initiatives in Investment Advice, Based on the Normative Framework of Personal Financial Advice	Wealth Adviser Workstation	Online Wealth Adviser
Continuous process of planning, executing, monitoring, and controlling of income, expenses, assets, and liabilities.	x limited to investments	x limited to investments
Managing financial risks.	x	x
Providing support for changing goals, needs, and capabilities of customers in subsequent life stages.	x	x
Develop standardized advice for each segment, life stage, and life event.	x	x
Offer personalization to adapt standardized advice to customer preferences.	xx	xx
Offer advice through assisted self-service: Self-service + Remote Support. + Face-to-face.	RS/FF	SS/RS/FF
Support community building through online channels.		
Consistent experience of social and societal values through all channels.		x
Adviser in role of boundary spanner.	x	x
Respect the seven laws of the emotion economy	◐	◐
Support mental accounting.	x	x
Focus on available income in subsequent life stages.	x	x
Determine customer risk profile effectively.		
Include life cycle and structured products.	xx	xx
Present results in terms of performance.	x	x
Limit number of options and present default options.	x	x
Aim for life long relationship.	x	x
Increase product sophistication through packages products & services.	xx	xx
External evaluation/certification in product development process.	x	x
Dynamically propose relevant standardized personal advice and product combinations as customers move through life stages and life events.	xx limited to investments	xx limited to investments
Disclose the nature of the product.	x	x
Avoid misrepresentation through a holistic view on finances.		
Avoid the use of duress and undue influence.		
Determine the risks for the customer.	xx	xx
Comply to due care, offering well balanced products.		
Offer "best advice" default options, with simple opt out.	xx	xx
Regaining trust through fulfillment of seven determinants:	◐	◐
Customer centric design for each (sub) segment with use of: Virtual adviser and instruction videos. Prefilled fields and use of dragging & dropping. Immediate results and scenario planning. Incentives for feedback and co-creation.	x	x
Use of automated business rules to: Ensure compliance to internal and external regulations. Deliver an end-2-end audit trail. Select appropriate products. Support online monitoring. Deliver actionable alerts. Support advisers optimally in their job. Deliver required management information.	x x x x x x x	x x x x x x x

Legend: ◐◑◒ = level of completion; x,xx,xxx = level of maturity.

Table 5.2: Evaluation of Initiatives in Investment Advice, Based on the Normative Framework of Personal Financial Advice.

requires an adviser to have an in person discussion with the customer on the risk profile. This conversation with the customer is expected to be recorded in the customer file. In the 2009 report on wealth advice, the AFM observes that in the Dutch market almost all funds advised are actively managed funds, with a relatively higher yearly cost of 100 base points (1%) compared to passively managed funds. The AFM remarks that actively managed funds do not seem to be in the best interest of customers and that passive investments, like index trackers, perform as good and often better.

The AFM report on wealth advice (AFM, 2009) prevents online investment advice and standardized investment portfolios to be in compliance with Dutch customer care regulations. The extensive investment advice process required by the AFM, results in considerable costs for advice, which in the case of a modest investment amount, will diminish returns to below that of a savings account, while the risks increase substantially. The volatility in financial markets will require the investment advice to be reevaluated at least once every year, resulting in additional yearly costs. One of the reasons why Dutch investment advisers select actively managed funds, may well be to compensate for the costs of investment advice, whereas in the model portfolios mentioned of the U.S. wealth adviser platforms, a selection of low cost index trackers (ETF's) is available. A passive investment in the Amsterdam Stock Exchange Index over 2009 would have delivered a 30% return as compared to the 7.6% average return of all investment service providers in The Netherlands and a 32.2% of the best investment advice (Izêks & Snurer, 2009).

A person to person discussion with the customer on the risk profile, as required by the AFM, will not necessarily lead to a clear decision on the optimal risk profile for that customer. For instance, if customers say that they expect a reasonable return on the one hand, with limited risks on the other, a lot of room for interpretation is left for the adviser. Recording these statements in the customer file, will make it very difficult, if not impossible, to monitor investment portfolios against the subtleties mentioned in a conversation. As a result, a profile based on a discussion with a client may not help to resolve a conflict if, in the eyes of the customer, the returns fall short of expectations.

The conclusion is that present customer care policies and guidelines (AFM, 2009), requiring person to person contact and a personal investment portfolio, prevent an effective and efficient wealth management platform with standardized investment advice for specific customer segments to be implemented in The Netherlands. Although the AFM guidelines start from the premise that every client is different, an investment platform can deliver standardized investment advice efficiently for targeted groups of customers, who are similar in wealth, income, investment goals, investment horizon and risk preference. Moreover, the way the risk profile is expected to be determined and recorded is a basis for multiple interpretations and can lead to conflicts between investor, adviser, and

clients. A further study in the way risk profiles are determined and used is the subject of the next paragraph.

5.3.3 DETERMINING RISK PROFILE AND INVESTMENT PORTFOLIO

In the practice of investment advice, it has become a standard to use a questionnaire to determine the customer's risk profile. On the basis of the risk profile, the strategic asset allocation is determined (the percentage of the assets allocated to asset classes like stocks, bonds, cash, and others). Dutch regulations require the financial service provider to gather information about the financial position of clients, their knowledge and experience, goals, and risk appetite (Wft. article 4:23). The amount of information that needs to be collected depends on the type of client, the nature, and volume of the investment services, as well as the type, complexity, and risk of the investment product under consideration (Besluit gedragstoezicht financiële ondernemingen, article 80c:1).

The manner in which the risk profile is determined and the way in which the risk profile is used to decide on the strategic asset allocation, varies among financial institutions. A study amongst six banks in The Netherlands has shown that there is no consistency in the way banks determine risk profiles and the way the risk profile is used to determine the strategic asset allocation (Loonen & Van Raaij, 2008). Loonen and Van Raaij concluded that there are huge differences in the strategic asset allocation proposed by the banks, for 42 out of a total of 45 individuals who filled in the questionnaires of six banks. In 24 cases the variations were extremely high: A variance in the percentage allocated to stocks from 20–100 percent in one risk profile, to 20-70, 10-70 and 0-70 percent in other risk profiles. Customers are advised investment portfolios with widely diverging levels of risk and returns, depending on the bank they choose. Loonen and Van Raaij (2008) suggest standardization in questionnaires and risk profiles. If risk profiles and strategic asset allocations are standardized, banks will still be able to differentiate and compete in the tactical asset allocation (the selection of investments within an asset class).

Since the strategic asset allocation has a major impact on expected returns and risks, a more in-depth study on how the strategic asset allocation is determined seems appropriate. One of the leading banks delivering investment services in The Netherlands requested a study on the way risk profiles and strategic asset allocation are determined. The central research questions and the scope and plan of the study were agreed upon with the bank. A master student with a major in Economic Psychology from the Tilburg University, was selected and offered an internship at Capgemini to execute the research under supervision of the author. In 2009, the research was conducted, with the support

of the University of Tilburg and the bank. The research results are published in a master thesis and a publication (Vos, 2009; Vos, Schuurmans & Van Raaij, 2011). Here, the highlights of this study are presented.

5.3.3.1 The Research Questions

The study focused on four questions:

1. What are the main differences between the questionnaires used by banks to determine the customer's risk profile, and what are the differences in applying these questionnaires to determine the strategic asset allocation?
2. Does the questionnaire used by the bank provide a reliable indication of the risk profile?
3. Which psychological variables are most suitable to determine the risk profile?
4. How can the questionnaires best be used in determining the strategic asset allocation?

5.3.3.2 Differences in the Questionnaires and the Use of the Questionnaires

The questionnaires used by six banks have been compared. All questionnaires include questions in four main categories:

1. Present financial situation.
2. Investment goal and horizon.
3. Risk appetite.
4. Knowledge and experience.

All banks included in this study, weigh the answers to the questions and this results in a risk profile. The banks use risk profiles from "defensive" towards "aggressive" although the descriptions vary. In determining the risk profile the banks place major emphasis on the first two categories: Present financial situation as well as investment goal and horizon. Knowledge and experience has a minor impact in determining the risk profile. The weight attributed to the risk appetite varies between banks from 13–39%. The questions determining the risk appetite differ substantially between the banks. This category includes questions like the following:

How would you react if confronted with a sudden drop in share prices?

- a) I would have several sleepless nights.
- b) I would think it is very annoying.
- c) I would think it is a pity, knowing that this can happen.
- d) I would sleep as good as always.

This question and others in this category can be improved, since the answers are not mutually exclusive (people may be annoyed and suffer from sleepless nights or sleep as a rose). On the basis of recent psychological insights in risk behavior, the suggestion was made to improve the questions on risk appetite.

5.3.3.3 Reliability of the Questionnaire to Determine the Risk Profile

Banks assume the risk profile to remain relatively unchanged over time. To test the reliability of the bank's current questionnaire in determining a stable risk profile over time, a longitudinal study was performed. A sample of 2005 investing customers of the bank was asked to participate in a survey on the internet and 136 (6.8%) responded. The respondents all had a previously assigned risk profile by the bank (Previous profile), ranging from profile 1 (most defensive) to 6 (most offensive). The same questions used to compute the previously assigned risk profiles were administered, now a year or two later, resulting in a new risk profile (New profile). The newly computed risk profile was compared to the risk profile that had been determined for these clients a couple of years earlier (see Table 5.3).

	Saving	New Profile 1	New Profile 2	New Profile 3	New Profile 4	New Profile 5	New Profile 6
Saving	0	0	0	0	0	0	0
Previous Profile 1	0	0	3	3	10	0	0
Previous Profile 2	1	0	2	4	9	1	0
Previous Profile 3	0	0	0	5	6	0	0
Previous Profile 4	0	0	2	6	14	3	0
Previous Profile 5	0	0	0	1	11	15	0
Previous Profile 6	0	0	0	2	11	10	2

Table 5.3: Comparing Previous and New Profile

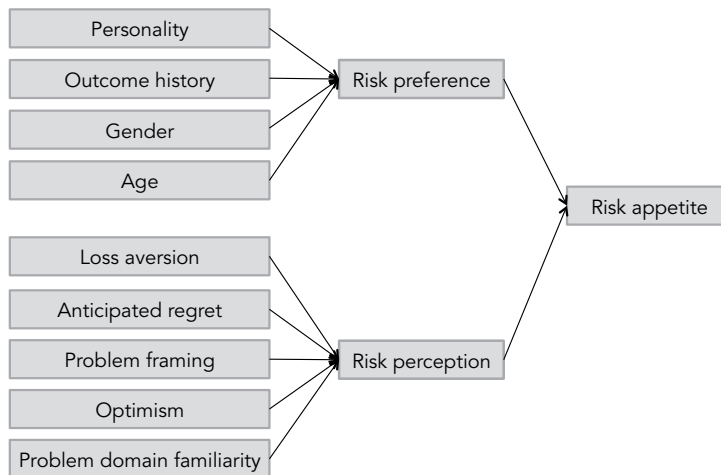
The total number of respondents, having scored both Previous and New Profile is 121. For only 31% of these respondents the new risk profile was unaltered, 33% moved up or down more than one category. There was no generic pattern in customers shifting up or downwards, which makes it unlikely to explain these results by a single external event.

The conclusion is that risk profiles are not consistent over time and need a regular update. This can be explained, since the risk profile is predominantly based on answers to questions on the present financial situation, as well as the investment goal and horizon. The customer's financial situation, goals and investment horizon change rapidly over the client's life time.

5.3.3.4 Psychological Variables Most Suitable to Determine Risk Appetite

On the basis of a literature study, a model was developed to explain customer's financial risk behavior and determine customer's risk appetite. The proposed model to determine risk appetite is adapted from a model proposed by Sitkin and Pablo (1992), developed to explain individual risky decision making within organizational contexts. Instead of different independent variables as direct factors of financial risk behavior, Sitkin and Pablo considered financial risk behavior to be explained indirectly, through the mediating effects of risk preference and risk perception. Some of the variables proposed by Sitkin and Pablo (1992) have been adjusted to fit the situation of financial risk behavior. The determinants of risk appetite are presented in Figure 5.4 and will be explained below.

Figure 5.4: Conceptual Model Determining Risk Appetite



Risk Appetite. Sitkin and Pablo's model is focused on explaining actual risk behavior, while the focus of the present study is to determine risk appetite. Risk appetite is defined as the risk level the investor is willing to accept. The supposition made, is that the same factors that explain risk behavior are best in determining the risk level the investor

is willing to accept. Risk appetite has been measured in three ways, a direct risk attitude measurement, the new profile and the previous profile.

Risk Preference. The first mediating variable is risk preference, which is conceptualized as individuals' risk-taking tendencies. Risk preference is considered to be an attitude that is stable, persistent and enduring over time. The person's risk preference can either be risk seeking or risk avoiding (Sitkin & Pablo, 1992). The risk avoiding decision maker is more likely to attend to and weigh negative outcomes and thus overestimating the probability of loss, relative to the probability of gain. The risk seeking decision maker will attend to and weigh positive outcomes more highly and tends to overestimate the probability of a gain, relative to the probability of loss (Schneider & Lopes, 1986).

Risk Perception. The other mediating factor in this model is risk perception. Risk is highly subjective and in fact a process of interpretation. It can have a different meaning to different people in different contexts, which makes risk a subjective construct (Diacon & Ennew, 2001). An analysis of how individuals make investment decisions confirms that gains and risk cover only a small part of the decision process, and that individuals are more sensitive to perceived risk than to objective risk (Diacon & Ennew, 2001). This points to the importance of risk perception within the model of financial risk behavior. Risk perception is defined as an individual's assessment or interpretation of how risky a situation is. It is an individual's estimate of the degree of situational uncertainty, controllability of that uncertainty, and their confidence in those estimates (Sitkin & Weingart, 1995).

Risk preference and risk perception are believed to mediate the effects of several exogenous predictor variables. First, the exogenous predictor variables for risk preference will be discussed and next, the exogenous predictor variables for risk perception.

Factors Influencing Risk Preference

Personality. The first exogenous factor believed to influence risk preference is personality. A model of personality traits, which are believed to predict risk taking, based on the five-factor model of Digman (1990), consists of five bipolar dimensions (extraversion-introversion, neuroticism-emotional stability, agreeableness-hostility, openness-closeness to experience, and conscientiousness-lack of conscientiousness). The personality traits are linked to risk preference, since both concepts are persistent and enduring.

Outcome History. Experience within a problem domain increases the knowledge or familiarity within that domain (Sitkin & Pablo, 1992). Research findings show, that prior success in risk taking can alter risk preference. Decision makers will seek more risks if prior risk-seeking strategies were successful (Osborn & Jackson, 1988; Thaler & Johnson, 1990). When the strategy of risk averse decision making is successful, individuals will continue to make cautious decisions (Osborn & Jackson, 1988).

Gender and Age. Men and women respond different to risk. In general, men are more willing to take risk than women, and women are significantly more risk averse in making financial decisions than men (Donkers & van Soest, 1999; Jianakoplos & Bernasek, 1998). Age is also a known factor to influence risk behavior. When all other factors are constant, older individuals take less risk than younger individuals (Jianakoplos & Bernasek, 2006; Donkers & van Soest, 1999).

Factors Influencing Risk Perception

Loss Aversion. Prospect theory assumes that individuals perceive and evaluate changes in wealth in terms of gains and losses, depending on a reference point. Experiments have revealed that individuals' behavior depends on whether a change is perceived as a loss or a gain (Kahneman, Knetsch & Thaler, 1990; Tversky & Kahneman, 1991). Losses loom longer than gains in the evaluation of prospects.

Anticipated Regret. The threat of anticipated regret reduces the tendency to make risky decisions because the more often or quickly an individual engages in anticipated regret, the more risk is perceived by this individual. This is because individuals consider the additional costs of feeling regretful over the possible negative outcome, when making a risky decision. Thus the more often and quickly one anticipates regret when making financial decisions, the more risk is perceived (Nordgren, van der Pligt & van Harreveld, 2007).

Problem Framing. An important influence on decision makers risk perception is whether the problem is framed in positive or negative terms (Kahneman & Tversky, 1979). Individuals in favorable circumstances, behave more risk averse, in part because they feel they have more to lose. In contrast, individuals who believe they are in unfavorable conditions may feel they have little to lose, and therefore behave more risk seeking (Sitkin & Pablo, 1992).

Optimism. Literature on optimism by Scheier, Carver & Bridges (1994) defines optimism as generalized positive expectations about future events (Puri & Robinson, 2007). Especially since optimism concerns expectancies for the future or expectancies about outcomes, it is a highly relevant construct in financial risk behavior. Risk is only experienced when there is uncertainty about outcomes. The outcomes and the uncertainty are believed to be influenced by the level of optimism an individual displays. There is an obvious relationship with risk perception, as optimists in general expect or believe to experience positive outcomes. In short, optimists perceive less risk compared to pessimists.

Problem Domain Familiarity. As stated earlier regarding outcome history, individuals learn from their experiences. The familiarity with investment decisions increases with experience in the problem domain of investment decisions (i.e., their problem domain familiarity with financial risk decisions increases). Individuals learn from their experiences and implement those successfully when making decisions. Individuals are prone to be-

come more confident by increasing experience (Sitkin & Pablo, 1992; Levitt & March, 1988). To put it differently, the more experienced or familiar individuals are with a certain problem domain, the more confidence they have in their decisions and therefore perceive less risk.

5.3.3.5 Research

For the variables in the model, a questionnaire has been developed, based on questions available in literature. Details on the questionnaire are available in Appendix C: Specification Risk Profiles Study. The questionnaire is presented to the sample of 2005 investing customers of the bank. Regression analysis was used to validate the relationships in the conceptual model.

Risk preference proved to have a strong positive correlation with risk appetite (as measured by risk attitude measurement ($r = 0.86$, $n = 122$, $p < 0.01$), the previous profile ($r = 0.61$, $n = 122$, $p < 0.01$) and the new profile ($r = 0.51$, $n = 121$, $p < 0.01$). Investors with a high risk preference have a tendency to accept more risk in investments.

Three other variables showed a strong and significant correlation with risk preference: loss aversion, anticipated regret and problem domain familiarity. Individual investors with a strong loss aversion and investors who anticipate highly on regret are risk averse. Investors who are more familiar with the problem, have a higher appetite for risk.

A partial correlation was used to explore the relationship between the exogenous variables and risk appetite, while controlling for risk preference. Only loss aversion showed a significant direct relationship to risk appetite, which was not explained by risk preference. The results are shown in Table 5.4:

Risk perception was not found to have a significant relationship with risk appetite. None of the proposed relationships showed significant correlation coefficients. New profile and risk perception ($r = -.15$, $n = 121$, ns.), previous profile and risk perception ($r = -.17$, $n = 122$, ns.), and risk attitude and risk perception ($r = -.12$, $n = 122$, ns.). This was against the expectations based on literature. Further research is needed to verify these findings. All proposed relations to be mediated by risk perception were now expected to be mediated by risk preference.

	Correlation	Partial Correlations		
	Risk Preference	Attitude	Previous Profile	New Profile
Personality				
Extraversion	r = 0.02	r=-0.02	r=-0.01	r=-0.05
Conscientiousness	r = -0.04	r=0.09	r=0.01	r=0.09
Emotional Stability	r = 0.21*	r=0.08	r=0.09	r=0.24
Openness	r = 0.23**	r=0.05	r=0.20*	r=0.06
Outcome History	r = 0.23**	r=0.13	r=0.06	r=0.03
Gender	r = -0.39**	r=-0.09	r=-0.26	r=-0.34**
Age	r = -0.02	r=-0.03	r=-0.18*	r=0.15
Loss Aversion	r = 0.60**	r=0.26**	r=0.19*	r=0.18*
Anticipated Regret	r = -0.57**	r=0.02	r=-0.02	r=0.20*
Problem Framing	r = 0.25**	r=0.13	r=0.09	r=0.36**
Optimism	r = -0.27**	r=-0.04	r=-0.13	r=-0.16
Problem Domain Familiarity	r = 0.55**	r=0.17	r=0.20*	r=0.04

Table 5.4: Correlations between variables in the model on risk appetite.

Direct Indicators of Risk Appetite

The previous profile, the new profile and the risk attitude measurement were used as the dependent variables in the multiple regression analysis, in which all the psychological variables were used as predictors.

Risk preference and loss aversion proved to be the only predictors that explained variance in all three regression analyses. Together, risk preference and loss aversion are able to predict 75% in the variance of the risk attitude, 42% of the variance in the previous profile and 29% of the variance in the new profile. The finding that loss aversion and risk preference can explain significant variance in each of the indicators of risk appetite, suggests that both variables are capable of predicting financial risk appetite directly.

Indirect Indicators of Risk Appetite

Since nine different variables showed a significant correlation with risk preference, all these variables were entered as predictors into a multiple regression analysis in order to assess how much variance they could predict in risk preference. For the regression analysis on risk preference nine predictors accounted for 60 percent of the variance in risk preference (Adjusted $R^2 = .60$), which was significant, $F(4, 115) = 43.40$, $p < 0.00$. Four of the nine predictors showed a significant effect (outcome history, loss aversion, anticipated regret and problem domain familiarity).

Loss aversion is the only independent variable that has partial correlations with all three dependent variables, controlled for risk preference (see Table 5.4). Therefore, a multiple regression analysis was executed with loss aversion as dependent variable and the same eight predictors (loss aversion excluded) that were entered for the model of risk preference. These variables could account for 23 percent of the variance in loss aversion (Adjusted $R^2 = .23$), which was significant, $F(2, 115) = 18.52, p < 0.00$. Two of the eight predictors (problem domain familiarity and gender) demonstrated a significant effect on the loss aversion scores.

Figure 5.5: Direct and Indirect Indicators of Risk Appetite

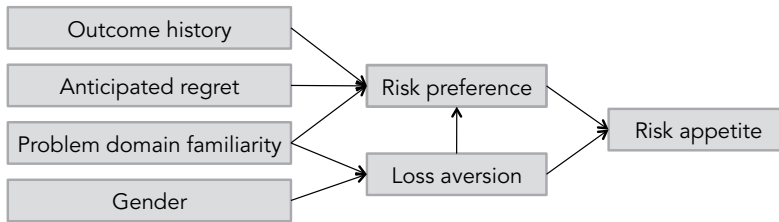


Figure 5.6: Proposed Questions to Determine Risk Appetite

<p>1. Risk preference</p> <p>Please circle the number that represents your opinion on the following statements:</p> <p>Safety first. Strongly Disagree 1 2 3 4 5 6 7 8 9 Strongly Agree</p> <p>I don't take risks with my finances. Strongly Disagree 1 2 3 4 5 6 7 8 9 Strongly Agree</p> <p>Preferably, I avoid risks. Strongly Disagree 1 2 3 4 5 6 7 8 9 Strongly Agree</p> <p>I take risks on a regular basis. Strongly Disagree 1 2 3 4 5 6 7 8 9 Strongly Agree</p> <p>I am uncomfortable if I don't know what is going to happen. Strongly Disagree 1 2 3 4 5 6 7 8 9 Strongly Agree</p> <p>I experience risk as a challenge. Strongly Disagree 1 2 3 4 5 6 7 8 9 Strongly Agree</p> <p>I see myself as a: Risk avoider 1 2 3 4 5 6 7 8 9 Risk seeker</p>	<p>2. Loss aversion</p> <p>By taking more risk, the chances for higher returns grow. However, the chances for losses increase as well.</p> <p>The circles below represent the outcome of an investment portfolio after one year:</p> <ul style="list-style-type: none"> - The left circle represents a 100% sure gain. - The right circle represents a 50/50% gain or loss. <p>Please select the left or right circle in each of the following six cases:</p> <p>Case 1: <input type="radio"/> + € 200 or <input type="radio"/> <table border="1" style="display: inline-table; border-collapse: collapse; text-align: center; width: 40px; height: 40px;"><tr><td style="border: none;">+ € 600</td></tr><tr><td style="border: none;">- € 200</td></tr></table></p> <p>Case 2: <input type="radio"/> + € 200 or <input type="radio"/> <table border="1" style="display: inline-table; border-collapse: collapse; text-align: center; width: 40px; height: 40px;"><tr><td style="border: none;">+ € 900</td></tr><tr><td style="border: none;">- € 350</td></tr></table></p> <p>Case 3: <input type="radio"/> + € 200 or <input type="radio"/> <table border="1" style="display: inline-table; border-collapse: collapse; text-align: center; width: 40px; height: 40px;"><tr><td style="border: none;">+ € 1300</td></tr><tr><td style="border: none;">- € 500</td></tr></table></p> <p>Case 4: <input type="radio"/> + € 200 or <input type="radio"/> <table border="1" style="display: inline-table; border-collapse: collapse; text-align: center; width: 40px; height: 40px;"><tr><td style="border: none;">+ € 1800</td></tr><tr><td style="border: none;">- € 650</td></tr></table></p> <p>Case 5: <input type="radio"/> + € 200 or <input type="radio"/> <table border="1" style="display: inline-table; border-collapse: collapse; text-align: center; width: 40px; height: 40px;"><tr><td style="border: none;">+ € 2300</td></tr><tr><td style="border: none;">- € 800</td></tr></table></p> <p>Case 6: <input type="radio"/> + € 200 or <input type="radio"/> <table border="1" style="display: inline-table; border-collapse: collapse; text-align: center; width: 40px; height: 40px;"><tr><td style="border: none;">+ € 2800</td></tr><tr><td style="border: none;">- € 1200</td></tr></table></p>	+ € 600	- € 200	+ € 900	- € 350	+ € 1300	- € 500	+ € 1800	- € 650	+ € 2300	- € 800	+ € 2800	- € 1200
+ € 600													
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+ € 2800													
- € 1200													

All other variables from the conceptual model were removed, resulting in the following overview of direct and indirect indicators of risk appetite (Figure 5.5):

The indirect indicators are unable to explain additional variance in risk appetite. So, for practical purposes, Risk appetite is best determined by the direct indicators risk preference and loss aversion. Consequently, two questions are suggested to replace existing questions on risk appetite. In Figure 5.6 the proposed questions on risk preference and loss aversion are presented, determining risk appetite.

5.3.3.6 Conclusions and Recommendations

On the basis of the study the following conclusions and recommendations have been made:

1. Conclusion: Risk profiles change considerably over time. Recommendation: Risk profiles need frequent revisions, at least once per year.
2. Conclusion: The risk profile is determined on the basis of questions that include situational variables (present financial situation, investment goal and horizon) and personal variables (risk appetite, knowledge and experience). The recommendation is to split the questionnaire into two sections:
 - i. The first section includes present financial situation, investment goal, and horizon. This section offers financial service providers a good basis to objectively advise the customer on the acceptable risk level, based on the financial service provider's investment expertise.
 - ii. The second section measures the customer's risk appetite, as well as knowledge and experience. Risk appetite, the level of risk the investor is willing to accept, is determined by two questions concerning risk preference and loss aversion.
3. Conclusion: In the present way of working, the risk profile is determined in the contact between customer and adviser, which diffuses who decides on the risk profile and on what grounds. The recommendation is that:
 - a. The financial service providers decide on the risk level that, on the basis of their expertise, is acceptable in regard to the present financial situation, investment goal, and horizon.
 - b. The customer determines the personally acceptable risk level by determining the risk appetite, based on the questions regarding risk preference and loss aversion.
 - c. If the risk level advised by the financial service provider coincides with the risk level determined by the customer ($a=b$), the risk profile is determined at that level of risk.

- d. If the risk level as suggested by the financial service provider deviates from the acceptable level of risk as determined by the customer ($a > b$ or $a < b$), the customer decides on the risk level that will be used to determine the strategic asset allocation. In doing so, the customer accepts the consequences of this decision.
4. Conclusion: Knowledge and experience should not influence the risk profile, since people with knowledge and experience should be protected against overconfidence, while people with limited knowledge and experience should not be deprived from the benefits of investments. It is recommended that knowledge and experience should only be used as an indication on how communication on investment advice should be presented to the customer. This recommendation deviates from the present customer care regulations (Wft. article 4:23) and will need further discussion.

The recommendations are summarized in Table 5.5.

Aspect	Current Practice	Recommendations
Questionnaire	Four categories of questions: <ol style="list-style-type: none"> 1. Present financial situation 2. Investment goal and horizon 3. Risk appetite 4. Knowledge & experience. 	Two sections: <ol style="list-style-type: none"> I. Situational: Present financial situation, investment goal & horizon II. Personal: Risk appetite, knowledge & experience.
Risk appetite	Determined on basis of ambiguous questions.	Determined on basis of risk preference and loss aversion.
Risk profile decision	Determined between customer and adviser.	Financial service provider selects acceptable risk level based on section I. Customer determines risk appetite, based on questions regarding risk preference and loss aversion in section II. Client decides on risk profile if risk level based on section I and II divert and accepts consequences.
Communication to customer.	Identical for all customers.	Adapted to knowledge & experience of the customer.
Updates	Risk profiles updated ad hoc.	Regular (once per year) updates of risk profiles.
Knowledge & experience	Effecting risk profile and strategic asset allocation.	Effecting communication on risk profile and strategic asset allocation.

Table 5.5: Current Practice and Recommendations

5.3.3.7 Limitations

This study on risk profiles is subject to several limitations. The study is limited to the customers of one bank. Moreover, the size and response rate of the survey require a more extensive study to validate the conclusions. Furthermore, special attention is suggested to the measurement of risk perception. Additionally, a model needs to be designed and tested to translate the risk appetite measured, into the six classes of risk profiles.

5.3.4 GAP WITH THE NORMATIVE FRAMEWORK IN RISK PROFILES

The study on risk profiles shows that there is room for improvement in the way that risk profiles are determined and used to decide on strategic asset allocation.

The AFM recently introduced a report with guidance on the use of risk profiles (AFM, 2010h), requiring investment advisers to inform clients on the risk profiles used, the investment strategy for each risk profile, the investment categories for each profile, the criteria used to select or exclude individual investment products, expected returns and risks, including a worst case scenario, how and on whose initiative risks are monitored, costs involved, and their impact on returns. In this report the AFM introduces a risk indicator, based on the volatility (standard deviation) of investment products in the past. These guidelines, especially the one on the use of the risk indicator, will result in operational challenges (for investments that lack historic data), and additional costs (to determine, monitor, and adapt the standard deviation for all investment portfolios). Without an intelligent investment advice platform, like the U.S. example presented in the previous paragraph, these guidelines can hardly be executed in practice, at acceptable costs. From a customer perspective, the risk indicator is of interest, however, a decision on investments requires a balance of risks, returns, and costs. Too much emphasis on risks (framing), may lead the client to undervalue returns and costs.

The study on risk profiles presented here, focuses on an effective determination of the customer risk profile, through a reconciliation of rational considerations (section I of the questionnaire) and financial behavior considerations (section II of the questionnaire). If the online wealth advice platform as presented in the US case, would be combined with the recommendations on effective determination of customer risk profiles, the resulting process covers almost all of the changes presented in the normative framework, allowing customers to manage their personal investments effectively and efficiently, supporting a lifelong mutually beneficial relationship with their financial service provider. The only limi-

tation is that the focus is limited to investments. The next paragraph will put the center of attention on personal financial advice across all product domains.

5.4 PERSONAL FINANCIAL ADVICE

The advice processes on pensions and investments discussed in the previous paragraphs, only focus on one specific product domain. The AFM in the reports on mortgages, pensions, and investment advice (AFM, 2007, 2008, 2009, 2010a, 2010b), underlines the importance of creating a holistic picture of the client's financial position, now and in the future, before going into a discussion on specific products. Thus, before making any decisions on important financial products, an integrated financial plan is required. This is in line with the approach on personal financial advice as described in Chapter 1.

Delivering personal financial advice, as we have seen in Chapter 3, is a complex and labor intensive activity, which in practice, does not always comply with internal and external quality standards. In this paragraph two case studies will be presented, that focus on delivering personal financial advice in an alternative way. The first one is a case study at an insurance company, delivered in 2008, as part of a consulting assignment on a new distribution strategy. The second one was carried out in 2009, for a bank, as a redesign study of the present financial planning practice.

5.4.1 FINANCIAL PLANNING AT A DUTCH INSURANCE COMPANY

This case study was conducted in 2008 during a consulting assignment at an insurance company.

Context

One of the largest Dutch insurance companies renewed its distribution strategy in 2008. Traditionally, the company presented its insurance products through networks of independent and dependent agents. The agents developed strong customer relationships, which often lasted for many generations. However, customer loyalty was diminishing, as a result of aggressive online competitors. Because of diminishing margins, the company looked for a new distribution strategy and additional revenues. The new strategy was defined as a relationship based strategy, delivering dedicated combinations of products and services, which can be adapted quickly to the changing needs of customer segments.

Multi-channel Distribution

As part of the new distribution strategy, a new Distribution Unit was created, immediately below the board, to develop and maintain dedicated combinations of products and services, for the targeted segments: Individuals, small businesses, and large companies. The Distribution Unit developed dedicated service offerings based on a customer centric approach, combining all the products available within the company, and if required, from elsewhere. To effectively support the marketing, sales, and delivery of the service offerings, a multi-channel distribution platform was designed, that would allow the insurance company to seamlessly support customers through the advisers, the call centers, the internet, and mobile. This platform is intended to support social media as well.

Personal Financial Planning

On the basis of their strong relationship with customers, the Distribution Unit and the agents came up with the idea, to offer personal financial advice in an innovative way (knowing that many individuals, since the financial crisis, distrusted the traditional financial advisers). On the basis of a personal financial plan, a host of financial services could be added to the portfolio. In this way, the company expected to improve customer retention, customer satisfaction, and revenues. Ideally, part of the financial planning process should be supported by self-service, through the internet.

Approach

The insurance company requested the assistance of Capgemini in the design of the multi-channel distribution platform and later, in the design of the financial planning application.

The multi-channel distribution platform design was conducted over a period of two months, by two consultants from Capgemini (including the author), in collaboration with representatives of the company's Distribution Unit and IT architects. An analysis was made of the present processes and applications. The required input was delivered on the basis of documentation and interviews with management team members and subject matter experts. Next, the multi-channel distribution processes and the multi-channel distribution platform were outlined. The design of the multi-channel distribution platform was supported by two management workshops. One management workshop was held at the start, to set the directions, and one at the end, to evaluate the results. The multi-channel distribution platform design was accepted as the basis for the project plan for the next year.

In the multi-channel distribution platform, a dedicated service had been identified to support personal financial advice. After completing the multi-channel platform design, Capgemini was invited to support the design for the financial advice application. After

an initial presentation, a series of six requirement workshops was planned, over a period of three months. Each of the workshops was attended by the insurance company project team, consisting of representatives of the Distribution Unit, Marketing & Communications, Advisers, and Risk & Compliance. Weekly progress meetings were set up, to guide the direction and make sure the required support was available. External assistance was available from a financial planning software supplier and a marketing consulting agency. A prototype was delivered, that included all screens to seamlessly support the online customer. A second prototype included all the screens for the detailed analysis by an adviser. The prototypes were accepted by the company project team and tested in two customer panel sessions. A dedicated video was produced, to support internal and external communications on the new financial advice experience. Final acceptance of the design was granted in a Distribution Management meeting.

Requirement Workshops

Six to nine employees of the insurance company, participated in the six requirement workshops, conducted by the author, during four hour sessions, to discuss every step in the personal financial advice process. In between the requirement workshops, a team of four designers and two experts of a supplier of financial planning software developed the prototype in an iterative way.

To get customers interested in personal financial advice, the applications supporting personal financial advice should include a self-service application on the internet. Additionally, to support detailed analysis and advice, an adviser application should be available. Customers would need an appealing application to entice them to start on financial planning. The first step was to focus on customer goals in an interactive way. Contextual and customer friendly support should be available in every step of the process. After the initial steps, an indication of the customer's financial capabilities to reach the goals should immediately be available. After that, a meeting with the adviser should be planned to discuss the goals, needs, and capabilities in more detail.

Online Application for Customers

The self-service application, intended to get customers interested in financial planning, uses a three step approach (see Figure 5.7):

1. Select and prioritize your goals in life:
 - Drag and drop goals on life line.
 - Prioritize: 1, 2 and 3.
 - A virtual assistant supporting every step along the way.
2. Enter essentials of your financial situation:
 - Income and expenses.

- Assets and liabilities.
 - For customer and partner.
3. Show results:
- Show feasibility of prioritized goals.
 - Present alerts on financial risks.
 - Make appointment with adviser.

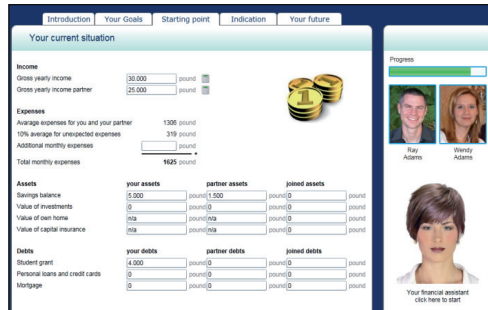
The results delivered on the basis of the self-service application are presented as a first indication, to be validated during the meeting with the adviser.

Figure 5.7: Three Step Introduction to Financial Planning

1. Your goals



2. Your financial situation



3. Results



Supporting Application for Advisers

The information delivered by the client over the internet, is used as a basis for validation, completion, analysis, and advice by the adviser. A laptop application supports the adviser in the detailed analysis of goals, needs, and financial situation. The meeting of the adviser with the client, in the office or at the customer's home, is expected to deepen the customer–adviser relationship. After the first meeting, another appointment is made to present and discuss the results of the detailed analysis and proposed solutions. At the office, the client's data is converted into a personal financial plan, using the financial advice software, including scenarios, alternative solutions and suggested products. Dedicated business rules are available to assure a good match is made between the customer profile, the standardized plans, and combinations of products available.

During the second meeting, alternative scenarios, solutions, and products are presented and, if the customer so decides, the selected products are applied for.

The company expects that the two meetings with the customer will take one or one and a half hour each.

Customer Test Panel

Two customer panels were used to test the new financial planning application and process. The customer test panels were organized by an external and independent facilitator, in two geographically separate locations (Apeldoorn and Eindhoven). The test panel sessions included 5 or 6 couples (male/female), customers of the insurance company. The duration of each of the test panels was three hours.

The customer test panel sessions started with open questions on how to manage personal finances and then the customers were asked to brainstorm on what the ideal financial service provider should encompass. After that, the prototype was presented and discussed in detail. All questions, comments and suggestions were recorded. All members of the test panel participated actively and were quite open about their personal finances. During the evaluation, all participants remarked that they were pleased to contribute to the service development process.

The customer panels reacted positively surprised to the presentation of the self-service model for personal financial advice. Several suggestions were made to improve the design. After the self-service presentation, the test panel was asked for a reaction on the two meetings with the adviser. Here, customers reacted reserved. Many would not be able or willing to spend that much time with an adviser. Further, several showed a general aversion against financial advisers. Some customers wondered whether the advisers of this insurance company (traditionally known for expertise in general insurances), would be qualified to deliver advice in all aspects of personal finance. Moreover, customers

wanted confirmation that they would still be able to get the basic insurance products for a reasonable price.

The critical remarks concerning the time required for meetings with the adviser came as a surprise to the insurance company. The company expected customers to appreciate the time and effort invested in the relationship. The comments regarding the corporate image underlined the importance of a strong multimedia communication campaign, to introduce the new brand image and strategy. The suggestions for improvement were incorporated in new versions of the prototypes.

Implementation

In 2009, the implementation of the new distribution model was postponed because of internal discussions about the strategy and the need to cut budgets, as a result of the financial crisis. One of the points of internal debate regarded the fact that headquarters would need to invest to implement the required personal financial advice platform, while the benefits and additional returns would flow into the pockets of the (independent) financial advisers. This point was added to the discussion over a new fee structure, which took more time than expected. In 2010 the design of the financial planning application was revisited and added to the 2011 project plan.

Limitations

The design of the personal financial advice solution has been endorsed by the insurance company management, project team, the external experts in the domain of Marketing, Financial advice, Technology, and Consumer Behavior, as well as the Consumer panels. However, the study is limited by the fact that the implementation in real-life has been postponed.

5.4.2 REDESIGN OF PERSONAL FINANCIAL PLANNING AT A DUTCH BANK

In Chapter 3, the current practice of the personal financial planning process for the (mass) affluent segment at a large bank, was analyzed. On the basis of that analysis, the bank requested a redesign of the personal financial planning process. In cooperation with the bank, Capgemini, and the University of Groningen, the To-be process of Personal Financial planning was designed, evaluated and approved. The master student in Operations & Supply Chains from the University of Groningen, who supported the analysis of the current process, executed the study on the To-be process, under supervision of the author.

(Dlabac, 2009; Schuurmans & Van Raaij, 2010, Schuurmans, 2010). Here, the highlights of the redesign are presented.

Context

As described in paragraph 3.4, the main conclusions on the current way of delivering a personal financial plan at one of the large banks in The Netherlands are, that it takes an adviser on average 9 hours to deliver a Personal Financial Plan (PFP), while the margin on products sold is not expected to recover the direct labor costs. As a consequence, the bank concluded that the delivery of the PFP service is not an economically viable option for the future. Moreover, the PFP's delivered did not meet internal and external quality standards. The challenge in the redesign of PFP is to reduce costs substantially, while improving the quality at the same time.

Approach

In order to answer the question on how to improve the PFP process, service process literature was consulted to find practical approaches to improve the bank's PFP process. Subsequently, advisers were interviewed to verify the feasibility of the ideas suggested in the literature examined. During the course of this research, a new integrated advice document was made available by the bank in the Online Financial Planning (OFP) system. To gain insight into the PFP composition process and the effects of the implementation of the new automated advice document, a survey among advisers was issued. The final redesign of the PFP process was evaluated and approved with the bank's management and staff at headquarters.

Research details are available in Appendix B: Specification PFP/MFP.

Service Process Literature

Since the introduction of the service process typology by Silvestro et al. (1999), described in paragraph 3.4, other authors have introduced related typologies. Metters et al. (2000) proposed a strategic operational focus and combines this with the level of back-office/front-office decoupling; a strategic choice typology of service systems. Zomerdijk et al. (2007) investigated in more detail how back-office/front-office decisions are made in financial service organizations. The research made clear, that the degree of customer contact, decoupling of activities, and grouping of employees, are design considerations that affect back-office/front-office design. Ng et al. (2007) have extended the framework proposed by Silvestro et al. (1999) to include a more detailed classification of mass services. The mass service extension of the framework was achieved by adding criteria regarding service delivery and purpose of consumption. As described in paragraph 4.1, the service

process framework of Silvestro et al. (1999) is extended by a category of services named mass customization (Van Asseldonk, 2000).

Split between Front and Back Office

The delivery of a Personal Financial Plan (Chapter 3: Figure 3.2) takes the adviser 9 hours, of which only 2.75 hours in direct contact with the customer, during the initial and final customer meetings. The rest of the time is spent on:

- 0.08 hours to send intake form and personalized letter.
- 0.17 hours to receive intake form and check attachments.
- 0.08 hours to call customers for additional information.
- 0.08 hours to plan second meeting with customer.
- 0.26 hours for data verification with CRM system.
- 1.21 hours on data entry.
- 0.67 hours to execute required scenarios.
- 2.54 hours to compose advice document.
- 0.67 hours to compose product offers.
- 0.18 hours to store PFP in e-archive.
- 0.06 hours to send PFP to customer.
- 0.22 hours to register customer's decision.

Many of these activities can be provided for by a supporting team in the back office or could even be automated.

Assisted Self-service

If customers could be encouraged to provide (and maintain) the required customer data to develop a Personal Financial Plan through a self-service application, the reduction in processing time would be considerable. Since customers want to be in control of their finances, this seems to be a realistic approach, however, only if a user friendly, interactive application and online support is available. The final discussion on the plan, the scenarios, and alternative products are still expected to be provided in face-to-face contact with the adviser.

Business Rules

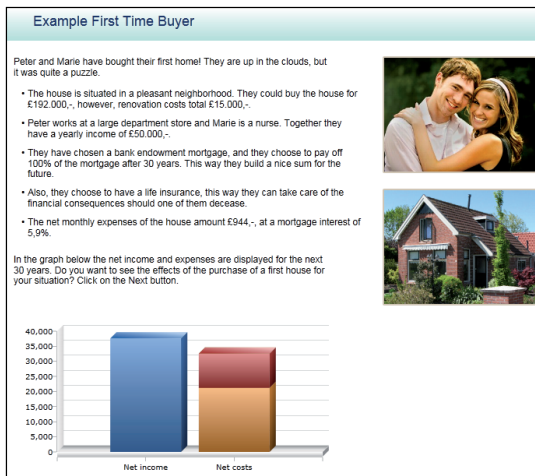
Many of the decisions in the PFP process are left to the discretion of the adviser for instance, concerning the products offered. A business rules engine would be able to check the applicability of certain products for specific situations and select alternative products to be considered. Other business rules would allow the adviser to deviate from the standard products suggested, depending upon his level of expertise and experience in financial advice.

Modular Plans

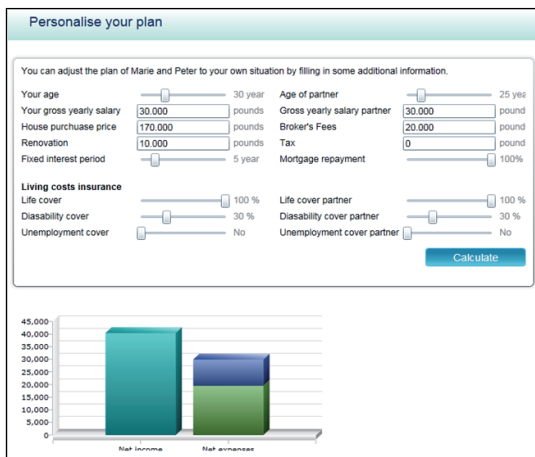
In the current PFP set up, few customers showed an active interest in financial planning. The customer initiates a PFP in only 5% of the cases. Customers contact the advisers if they have a specific need for instance, if they intend to buy a house. The suggestion was made to develop modular financial plans, which deliver a standardized plan for a defined customer segment, in a specific life stage, and with a specific customer need. In Figure 5.8 a modular financial plan is presented for first time home owners. The modular financial plan is presented in the form of a case, describing customers in a similar situation, discussing the main considerations that have to be taken into account for instance, the

Figure 5.8: Modular Financial Plan

Modular plan:
First time
Home owners.



Personalization



mortgage repayment period and life coverage. The modular plan limits the data entry required to the data relevant for a first time home owner. For many data fields, default values can reduce the data entry even further. The essential data required, is limited to select the most relevant options. The personalized results are immediately provided, in a condensed form. In the finalization of the plan, the assumptions made (the default data used) will be specified and validated.

Over a period of several months or years, customers will request supplementary modular plans, for instance dealing with car finance, children's savings account, additional pension plan, and so forth. The data on the customer goals, needs, present financial situation, and financial capabilities will continue to grow and will be updated at regular intervals. Thus, a holistic picture of the customer will develop over time.

Personalized Marketing

Based on the growing amount of information on the customer and on groups of customers in the same segment and life stage, the customer's goals and needs in the next life stage can be predicted with increasing accuracy, and personalized offerings can be provided, that help customers attain their goals.

Moreover, communities of customers will be facilitated to share experiences in facing the challenges of specific life stages and life events.

Data-mining technologies, that analyze large amounts of data available in customer databases, are able to further refine the modular plans for designated segments and life stages.

Lead Time Reduction

Reducing the present PFP lead time of 28.6 days, will result in a further reduction of the processing time. During the lead time of 28 days, many aspects affecting the plan can change, requiring the adviser to redo the analysis.

Integration

The present software supporting the Personal Financial Plan is not integrated with other applications of the bank. This results in re-entering of data, manual cross checks, mistakes, and corrective efforts. Integration of the advice application with the systems available for Customer Relationship Management, Campaign Management, Content Management, Document Management, Product Management, Sales Management, Branch management, and others will further reduce processing time.

Monitoring and Control

After completion of the plan and after the customer's decision, the results have to be monitored over time. The adviser and/or the customer should receive an alert, if the results deviate from the agreed plan or changes take place in the situation. Preferably, these alerts include a suggestion on what needs to be done, which the customer can accept or reject.

Management

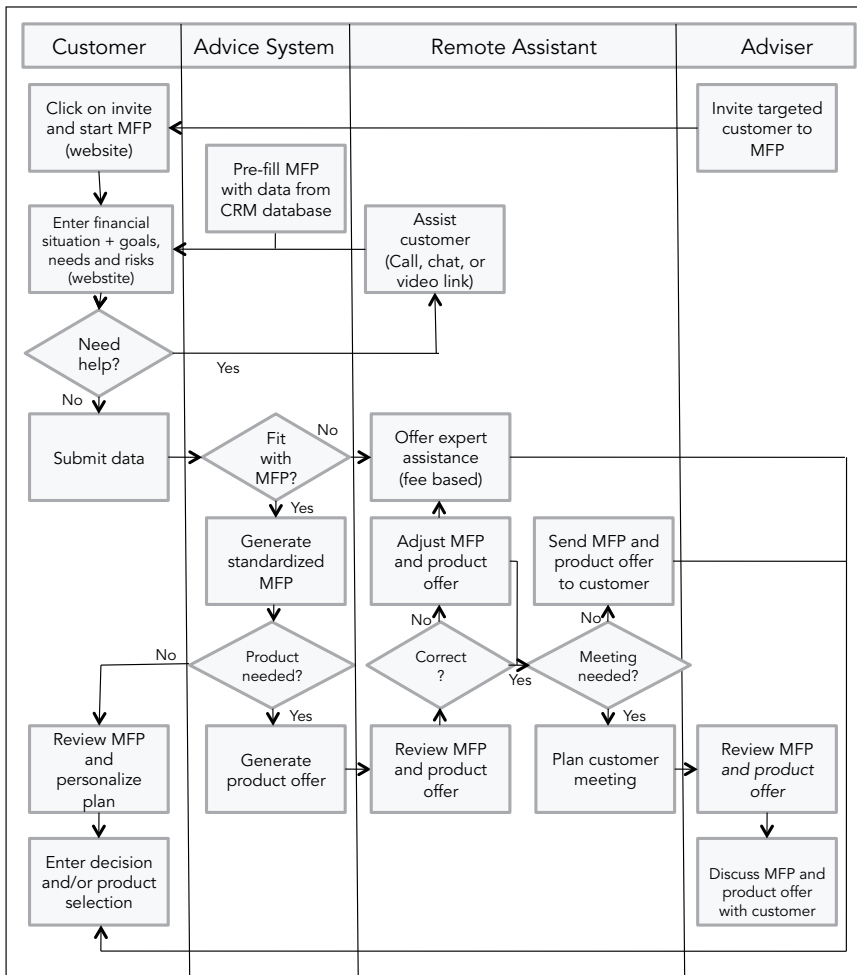
The management and control of the PFP process can be improved by implementing workflow management. Not just for management, but for advisers and customers as well. Managers will be able to measure progress in the delivery and the results of financial plans, for their branch or district and take action, accordingly. Advisers will receive a prioritized to-do list on plans for their customers and will be able to compare performance with peers. Customers will be reminded to update their plan, risk profile, send in missing information, and track progress.

Proposed Design

On the basis of ideas mentioned above, the proposed design for the delivery of a modular financial plan (MFP) is depicted in Figure 5.9.

The customer will initiate a MFP (perhaps after a suggestion made by the bank that a certain Modular Plan could help save money or attain goals). Essential information is already prefilled on the basis of available customer information. The customer will add the missing information. If needed, a remote assistant is available to support the customer (by means of phone, online chat or videoconference). On the basis of the data entered, the information system will verify whether a modular financial plan is applicable. If not, personal professional support is offered (at a fee), and an appointment can be made. If a modular plan is applicable, the standardized modular plan will be selected. Standardized product offers are generated by the system and checked by the remote assistant. Depending on the impact of the plan and the products offered, it is determined if a meeting with the adviser is required. If so, the meeting is planned. At the meeting, the plan and products offered are presented, validated, explained and if so required, adjusted by the client. If a meeting with the adviser is not required, the plan and product offers are made available in the self-service application and the customer can apply for the selected products online. Customer decisions are registered and the agreed plan will be filed and monitored over time.

Figure 5.9: Delivery of a Modular Financial Plan



Monitoring takes place at a regular interval or if the client or the bank notes that there are reasons to review because of a change in personal life or financial circumstances. If relevant, the bank will send out an actionable alert, giving the customer the opportunity to accept or reject the proposed adjustment of the plan.

Estimated results

The above model, has been created on the basis of intensive discussions with the banks representatives: advisers and managers from the bank offices around the country, as well as managers and staff at headquarters. In the end this model was evaluated and

approved. In cooperation with the bank's management and experts, a first estimation was made of the expected quantitative results of the MFP process, as compared to the current PFP process (Table 5.6).

Aspect	PFP	MFP
Processing time adviser	9 hours	1 hour
Processing time remote assistant	-	0.5 hours
Lead time	28,6 days	1 day
Direct labor costs	€ 612	€ 100
Cross sell ratio	1.9	3,5
Profit contribution per plan	Negative	+ € 500

Table 5.6: Benchmark figures PFP vs. MFP

The estimated results might seem overly optimistic and an implementation in real-life is the best test to verify these estimates. However, there are strong arguments in support of the estimation. A personal financial advice to select a dedicated set of products, supporting a standardized plan for a specific customer segment in a well defined life stage, concerning a specific life event, will result in the following benefits:

- Limited need for data entry because most of the customer data is already available and for the missing data a default value can be selected, with a high degree of precision, based on the use of data-mining techniques.
- Customers will only need limited support to compliment the required data, review the standardized plan, and personalize the plan according to their preferences. Furthermore, information on pensions, income and mortgage can be copied from the data available in the Pension Register and tax form.
- Processing time for adviser (1 hour) and remote assistant (0.5 hour) might therefore even be overestimated for the majority of standard cases in the retail and even the mass affluent segment. A comparison was made by the bank with personal advice on health care. Even though people will generally find good health more important than finances, most Dutch are satisfied with the support of a general practitioner, who in The Netherlands takes seven minutes on average, to listen to the patient, examine, decide on a diagnosis and write a prescription. In the financial world, if the essential data is available and a standardized plan is appropriate, simple cases like a savings account for children's study or the selection of a small investment portfolio, can even be handled without the support of the adviser. Slightly more complex cases could take 15 – 30 minutes. The on average one hour time slot for the adviser, on top of a half hour remote support, is expected to be a realistic estimate for delivering a modular plan.

- The direct labor costs are computed on the same € 68 per hour (see paragraph 3.4, under heading Costs of PFP) for the adviser and the remote assistant, while a lower average cost per hour can be expected for a remote assistant.
- The cross sell ratio is expected to grow quickly because of three factors:
 - a. A combination of products optimizing the financial situation for the short and longer term will be offered, resulting in a higher number of products sold.
 - b. The combination of products offered will deliver real benefits to the client, even compared to competitors, resulting in a high conversion rate.
 - c. The frequency of delivering modular plans is not limited to the availability of an adviser (maximum of one plan per customer per year), and as a consequence, relevant plans can be offered on several occasions during the year.

The estimated 3.5 cross sell ratio is modest compared to the best practice of 7.2 of a retail bank in the U.S.
- The estimated average profit contribution of € 500 per plan, has not been discussed in detail, but seems appropriate, especially if one takes into account that not all plans will require the assistance of an adviser or remote assistant.

The costs that have not been included in this estimate are the costs for the development and maintenance of Modular Plans. This will include a central unit that will define and adapt the standardized plans for specific segments and the development, maintenance, and operations of the Modular Plan information systems.

However, compared with the former PFP scheme, much of the training, management, and monitoring efforts, as well as the maintenance of a set of loosely coupled systems will be reduced.

Business Case

No business case has been delivered because it was apparent for the bank, on the basis of the estimates mentioned above, that the new set up of MFP would be able to turn around the losses, resulting from the traditional PFP approach.

The banks' 675 advisers were each delivering 40 PFP's per year.

Now that the total processing time for the adviser is expected to be reduced from nine to one hour, the advisers would be able to deliver at least 200 MFP's per year. Moreover, several of the more basic MFP's would not even require the support of an adviser, which will further increase the number of MFP's that can be delivered per year. With an average profit contribution per MFP of € 500, the total profit contribution of the MFP service for the bank is estimated to be: $675 \times 200 \times \text{€ } 500 = \text{€ } 67,500,000$ per year.

Assuming the bank requires a payback period for investments of half a year, the total investment available for the implementation of MFP is € 33 M. Although a cost estimation has not been prepared yet, it is expected that the implementation of the MFP service can well be realized within this range.

Implementing MFP will have considerable additional benefits, which have not even been incorporated yet, regarding the retail segment, risk management, customer attraction & retention, as well as competition.

Whereas the traditional PFP was only available for the (mass) affluent segment, the MFP can be made available for the retail segment as well. Further studies have to be made on the expected profit contribution per MFP in the retail segment, which might be lower because of the limited value of the products sold, although standard solutions may well be more easily accepted without the support of an adviser. The volume of the retail segment is however expected to boost total revenue and profit.

Standardized plans will ensure compliancy to internal and external risk management and customer care regulations, thus reducing operational risks and reputational risks to a minimum.

The personal financial advice delivered by the bank, may well turn out to be a strong argument for customers to remain with the bank, but (through word of mouth and communities), can also attract new customers to join the bank.

Finally, personal financial advice, as presented here, can deliver combinations of products that optimally match customer needs, with the best possible conditions in the marketplace, thus beating competition and growing market share.

The bank concluded that on the basis of the above considerations, the MFP scheme is expected to deliver personal financial advice profitably for the (mass) affluent and retail segment. Instead of a further business case study, the bank preferred to test the economic viability of the MFP service in real-life, starting with a pilot-study.

Implementation

As a result of a merger, that required priorities to focus on integration of current processes and systems of the two merging companies, the implementation of MFP has been put on hold. However, in the plan for 2011, the implementation of personal financial advice for the retail and (mass) affluent segment has been put high on the agenda.

Limitations

This case study has several limitations. Most important is that the case study was performed at one organization, a large Dutch bank. Consequently, one should be careful in generalizing the results. The redesigned process has not been implemented in real-life

yet, which makes the expected effects of the suggested redesign dependent on personal, albeit expert, assessments.

5.4.3 GAP WITH THE NORMATIVE FRAMEWORK IN PERSONAL FINANCIAL ADVICE

In the case study at the insurance company it has been shown that customers react positively and even enthusiastically, to a self-service application that supports them in the first steps of financial planning.

The second case study at the bank, estimated the effects for the bank in implementing Modular Financial Advice for the Retail and (Mass) Affluent segments.

The case studies for the insurance company and the bank are evaluated on the basis of the normative framework describing proposed changes in personal financial advice, as described in Chapter 4.

Both case studies support a continuous process of planning, executing, monitoring, and controlling of income, expenses, assets, and liabilities. Moreover, standardized advice is delivered, with room for personalization. Increased product sophistication is now available across all product lines within financial services.

The modular financial plan in the bank case study is appraised as being more mature in areas like the effective determination of the customer risk profile, the presentation of results, the presentation of default options, and consequently, the life long relationship because the MFP concept further expanded in these areas and integrated the improved customer risk profile.

The conclusion is that personal financial advice, as supported by the normative framework, is expected to deliver personal financial advice in accordance with customer needs, in a profitable way for the financial service provider, and in compliance with customer care regulations. Ideally, this conclusion would have been based on results delivered by a wide scale real-life implementation.

The evaluation results are presented in Table 5.7.

Evaluation of Initiatives in Personal Financial Advice, Based on the Normative Framework of Personal Financial Advice	Financial Planning at Insurance Company	Modular Financial Plan at Bank
Continuous process of planning, executing, monitoring, and controlling of income, expenses, assets, and liabilities.	xxx	xxx
Managing financial risks.	xx	xxx
Providing support for changing goals, needs, and capabilities of customers in subsequent life stages.	xxx	xxx
Develop standardized advice for each segment, life stage, and life event.	xxx	xxx
Offer personalization to adapt standardized advice to customer preferences.	xxx	xxx
Offer advice through assisted self-service:		
• Self-service + Remote Support. + Face-to-face.	SS/RS/FF	SS/RS/FF
Support community building through online channels.	x	xx
Consistent experience of social and societal values through all channels.	x	x
Adviser in role of boundary spanner.	x	x
Respect the seven laws of the emotion economy	●	●
Support mental accounting.	x	x
Focus on available income in subsequent life stages.	xx	xxx
Determine customer risk profile effectively.	x	xxx
Include life cycle and structured products.	xxx	xxx
Present results in terms of performance.	xx	xxx
Limit number of options and present default options.	xx	xxx
Aim for life long relationship.	xx	xxx
Increase product sophistication through packages products & services.	xxx	xxx
External evaluation/certification in product development process.	x	xx
Dynamically propose relevant standardized personal advice and product combinations as customers move through life stages and life events.	xxx	xxx
Disclose the nature of the product.	x	x
Avoid misrepresentation through a holistic view on finances.		
Avoid the use of duress and undue influence.		
Determine the risks for the customer.	xx	xxx
Comply to due care, offering well balanced products.		
Offer “best advice” default options, with simple opt out.	xxx	xxx
Regaining trust through fulfillment of seven determinants	●	●
Customer centric design for each (sub) segment with use of:		
• Virtual adviser and instruction videos.	x	x
• Prefilled fields and use of dragging & dropping.	x	x
• Immediate results and scenario planning.	x	x
• Incentives for feedback and co-creation.	x	x
Use of automated business rules to:		
• Ensure compliance to internal and external regulations.	x	x
• Deliver an end-2-end audit trail.	x	x
• Select appropriate products.	x	x
• Support online monitoring.	x	x
• Deliver actionable alerts.	x	x
• Support advisers optimally in their job.	x	x
• Deliver required management information.	x	x

Legend: ◐◑◒◓ = level of completion; x,xx,xxx = level of maturity.

Table 5.7: Evaluation of Initiatives in Personal Financial Advice, Based on the Normative Framework of Personal Financial Advice.

5.5 EVALUATION OF THE CASE STUDIES

According to the action research spiral presented in Chapter 2, after taking action, it is time to evaluate. Each of the case studies has been evaluated separately in comparison to the normative framework. Now, in retrospect, an overall evaluation on all case studies is presented.

In this chapter the developments in financial advice innovations have been reviewed. Since the first product oriented advice initiatives, like the ones presented in the pension domain, the functionality matured, as presented in the wealth management domain, whereas the latest initiatives are designed to deliver personal financial advice across all product domains.

The paragraph on Pension advice showed that the pension planning applications and even the new pension register, although they already cover several of the proposed changes mentioned in the normative framework, have serious limitations in providing a complete and clear overview to customers. The E*Trade example presents an attractive customer centric and interactive design, that has been implemented successfully in real-life. However, in the Dutch situation, additional functionality is required.

The 2003 example of the wealth management platform reveals that it is technically, practically, and economically feasible to implement a virtual guardian angel to effectively support both advisers and customers in investment advice. Many wealth management firms and investment brokers in the United States have since then implemented a similar service.

The study on risk profiles has shown that important improvements can be made in the way risk profiles are determined and used. Combining the functionality described in the wealth management platform with the suggested improvements in the determination and use of risk profiles, will deliver a customer friendly, effective, and efficient investment advice platform, which ensures compliancy to the latest customer care guidelines regarding the use of risk profiles, in an effective and efficient way.

The case studies in personal financial advice at an insurance company and a bank delivered strong support for the statement that it is possible to deliver personal financial advice, that is customer friendly, can be delivered in a profitable way, and in full compliance to internal and external regulations.

The case studies, from the ones in the pension domain to the ones in the investment domain and personal financial advice, have shown an increased level of adoption of the proposed fundamental changes as presented in the normative framework delivered in the previous chapter. In the final case, all of the proposed changes have been incorporated.

The fundamental changes in personal financial advice are supported by:

- The theories and models that underlie the normative framework.
- The expert judgment of advisers, managers, and specialists in the fields of financial advice, organization development, operations, compliance & risk, marketing, sales, and information technology, at the insurance company and the bank.
- The consumer panels that reviewed the personal financial advice initiative at the insurance company.
- The scientists at the Universities of Tilburg and Groningen, specialized in Economic Psychology and Operations & Supply Chains respectively, who support the results.

As only the pension and investment advice applications have been implemented in real life on a large scale, the conclusions on the fundamental changes in personal financial advice remain inconclusive. Yet, regarding the questions raised at the end of the previous chapter, the successful implementation of the wealth adviser applications shows, that standardized (investment) plans can be delivered according to quality standards, customers show real interest in taking control, advisors have made the change to support clients in their decision process, the technology can support a virtual guardian angel, complex combinations of products are presented intelligibly, customer care regulations have been captured in business rules, and costs to deliver investment advice have been reduced substantially.

The large number of visitors to the newly opened National Pension Register seems to show that Dutch individuals are willing to take action to get a better grip on their personal finances.

However, the initiatives on personal financial advice as presented in the insurance and bank case studies have not yet been implemented. The question arises: Why not? Financial service providers would be expected to embrace the opportunity of implementing personal financial advice, even if it would only deliver a chance to increase customer satisfaction, customer retention, customer attraction, and revenues, while ensuring compliance to customer care regulations, reducing costs to serve and diminishing risks. Apparently a bright idea and a consensus on the expected business benefits are not sufficient to bring about change. In the next chapter the factors will be addressed, that need to be taken into account to implement fundamental changes in personal financial advice successfully.

CHAPTER 6



IMPLEMENTATION ASPECTS AND APPROACHES

**IMPLICATIONS OF IMPLEMENTING PERSONAL
FINANCIAL ADVICE**

**THRESHOLDS IN IMPLEMENTING A CUSTOMER CENTRIC
ORGANIZATION**

**THEORIES AND MODELS SUPPORTING
TRANSFORMATION**

PLANNING FOR CHANGE

6. IMPLEMENTATION ASPECTS AND APPROACHES

In the previous chapters, the action research spiral as described in Chapter 2 has been followed, presenting the context and purpose of fundamental changes in personal financial advice in Chapter 1, diagnosis of the major challenges in Chapter 3, planning for action on the basis of theories and models in Chapter 4, and taking action and evaluation in Chapter 5.

After the conceptual design and endorsement of the fundamental changes in personal financial advice, the implementation of proposed changes was postponed in both the insurance and the bank case study, even though the expected benefits for the customers and the financial service provider are apparent and shared by all key stakeholders.

The question of why (the fundamental changes in) personal financial advice have not yet been implemented is a new research question. In this new research question, “fundamental change in” is placed between parentheses because some financial service providers have already implemented personal financial advice in the traditional way (as in the case of the bank), and are expected to implement the fundamental changes suggested, while others have not yet implemented personal financial advice yet (as in the case of the insurance company), and are expected to do so in the way proposed. The new research question will go through the action research spiral of diagnosis, planning for action, taking action, and evaluation.

In this chapter the diagnosis on the new research question will focus on two sub questions:

- What are the implications of implementing personal financial advice?
- What are the thresholds in implementing personal financial advice?

Implementing personal financial advice as described here will have a major impact on all levels and departments in the organization of a financial service provider. As a consequence, thresholds can be expected on all levels.

Next, as a basis for action planning, a framework will be presented to support alternative ways for successful implementation of fundamental changes in personal financial advice on the basis of theories, models, and the experience as a consultant. Taking action and evaluation will be left for future research.

6.1 IMPLICATIONS OF IMPLEMENTING PERSONAL FINANCIAL ADVICE

This paragraph will describe the impact of the implementation of personal financial advice on the organization of a financial service provider. To be able to do that, a framework is required that captures the various aspects of an organization.

6.1.1 THEORETICAL FRAMEWORK ON ORGANIZATIONS

In organizational theory, writers have placed emphasis on various aspects. Here an overview of the aspects of organizations is presented, as a basis to evaluate the impact of fundamental changes in personal financial advice.

Kates & Galbraith (2007) have developed a star model for designing organizations that includes strategy, structure, processes, rewards, and people. Kates and Galbraith developed a star model for different types of organizations, including product centric, customer centric and international organizations.

The relationship between strategy and structure has been studied by the historian Alfred Chandler (1962), who substantiated his "Structure follows Strategy" thesis based on four case studies of American conglomerates that dominated their industry from the 1920's onward. The thesis proved to be true and successful among the four industrial conglomerates that Chandler researched.

In the domain of business processes, based on systems theory, In 't Veld (1975) distinguishes three levels of business processes:

- The core processes, delivering the designated products or services.
- The supporting processes, like Human Resources and Maintenance, which support the people and machines to work according to predefined standards.
- The management processes, ensuring the delivery of results and improving the quality of the core process.

The growing importance of Information technology, especially in the financial services sector, requires a clear view on how strategy and business processes are best supported by Information technology. Van 't Wout et al. (2010) and The Open Group (2007) have developed architecture frameworks, which support a consistent and coherent view on business and IT-aspects.

Robbins (2005) in his study on organizational behavior places emphasis on corporate culture. He defines corporate culture as the system of shared meanings held by members that distinguishes the organization from other organizations. Robbins (2005) differentiates organization cultures according to seven key characteristics, measured in the degree an organization emphasizes these:

1. Innovation and risk taking; encouraging employees to innovate and take risks.
2. Attention to detail; expecting employees to exhibit precision.
3. Outcome orientation; focusing on results rather than on procedures.
4. People orientation; considering the effect on personnel.
5. Team orientation; working in teams rather than individually.
6. Aggressiveness; competing versus easy going.
7. Stability; maintaining status quo rather than growth.

6.1.2 ORGANIZATIONAL IMPLICATIONS OF CHANGES IN PERSONAL FINANCIAL ADVICE

On the basis of the organizational aspects mentioned above, the implementation of fundamental changes in personal financial advice within the organization of a financial services provider will be evaluated along the following dimensions:


- Strategy.
- Structure and the way structure follows strategy.
- Processes (core, supporting and management processes).
- Information architecture and the way it supports strategy.
- People.
- Rewards.
- Culture.

Strategy

Many financial institutions adopted a customer centric strategy, as suggested by the committee of bankers (Adviescommissie Toekomst Banken, 2009), the statement of the confederation of insurance companies presented in 2010 (www.VerzekeraarsVernieuwen.nl), and the vision of the independent financial advisers (Adfiz, 2010). In Figure 6.1 the strategy statements of several Dutch financial services providers are captured.

Figure 6.1: Sample of Financial Services Company Strategy Statements

Source: Excerpts from corporate public web sites February 2010 (bold format added).

	<p>The ING Business Principles will enable us to be here today and tomorrow to do what we do best: help customers manage their financial future.</p>
	<p>SNS Reaal is a Dutch service provider in insurance and banking. The ambition is to be the favorite financial retail specialist for individual customers and Small & Medium Sized Enterprises.</p>
	<p>ABN AMRO and Fortis Bank Nederland will create a new, combined and independent bank. They will build on their entrepreneurship, their professionalism and their experience abroad. The new entity wants to be a bank that always puts its clients first;</p>
	<p>Rabobank Group puts the common interests of people and communities first. Based on its commitment to those interests, Rabobank Group aims to be a driving and innovating force that contributes to the sustainable development of prosperity and well-being. Its goal is to help people and communities achieve their present and future ambitions.</p>
	<p>AEGON has a clear, well-defined strategic framework, aimed at creating added value for the company's customers, employees, shareholders and the wider community.</p>

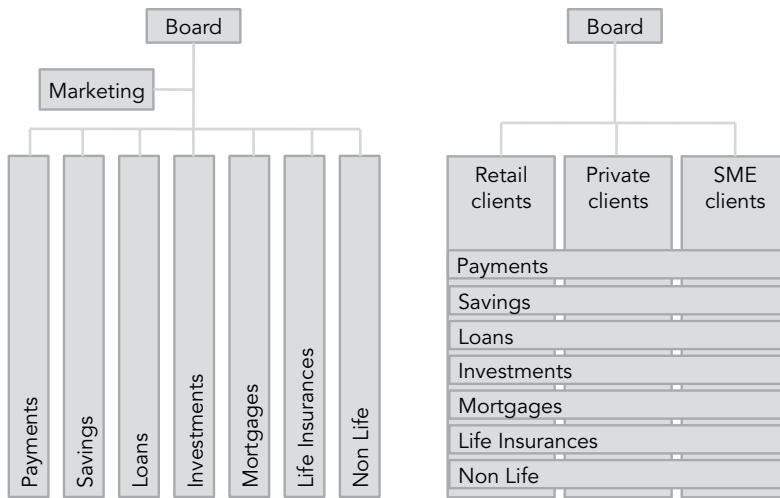
Many initiatives have been suggested to implement the customer centric strategy in financial services. The leading journals in the financial services industry joined forces and presented the views of more than eighty professionals in what they called “shameless ideas for a new financial world” (Vreeswijk, Assink & Valkenburg, 2010). These ideas include a new environmental strategy, regaining trust, creating simple and transparent products, adapting fee structures, certification of advisers, integrity, creating customer awareness, financial education, clear communication to customers, the focus on good life instead of money, helping people to manage their budgets, and stop profit maximization by the customer and the financial services companies. Several of the initiatives mentioned, also touch on the subject of financial advice processes, supporting a holistic approach on personal finances, self-service, the use of internet, and the role of an adviser as a coach or general practitioner. None of the suggestions concentrate on the need to change the organizational structure of financial service providers from product to customer centricity. The implementation of (fundamental changes in) personal financial advice is perfectly in line with the customer centric strategy, as the recommended way of working would certainly help customers to manage their financial future and achieve their present and future ambitions. However, without a change towards a customer centric structure, implementation of personal financial advice is bound to fail.

Organization Structure

If Chandler’s thesis “structure follows strategy” holds true, many financial institutions are expected to have implemented a customer centric organization structure.

Some of these organizations have moved towards a customer centric structure, however, several are only halfway there and many are still characterized by product centrality. The conversion from a product centric structure with pillars for each of the product lines (payments, savings, loans, investments, mortgages, life, and non life insurances), into a customer centric structure, with units for customer segments (retail and private clients, small & medium enterprises) is shown in Figure 6.2.

Figure 6.2: Conversion of a Product to Customer Centric Structure



The change from a product centric into a customer centric structure has a major impact on the operations of the financial service provider. In the product centric structure, priorities are set by the product lines, each product line defining their own route to market. Implementing (fundamental changes in) personal financial advice fits well in a customer centric structure, supporting the development and delivery of financial plans for each of the segments and for specific groups in these segments. In a product centric structure however, personal financial advice does not fit in at all because personal financial advice crosses the boundaries of each of the product lines. The only advice that blends in well with a product centric structure, is product oriented advice, resulting in disparate advice modules for each product line.

Processes

If a financial institution defines the strategic goal of the organization in terms of the delivery of financial products, it is only rational that the core processes focus on the sales and

service of financial products. Personal financial advice will only be a supporting process to the product sales and delivery processes.

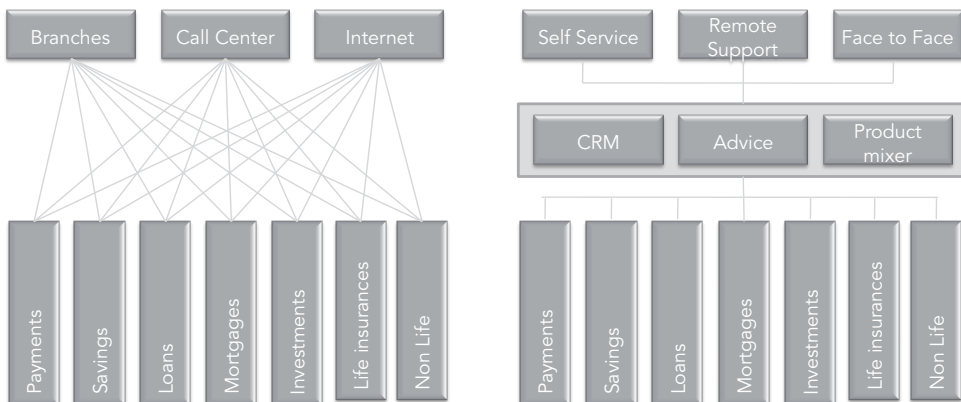
If a customer centric strategy is adopted however, personal financial advice becomes an essential part of the core process, in the advice, sales, and servicing of customer centric solutions. In a customer centric strategy, the product oriented processes will become support processes in the provisioning of customer centric solutions.

Management processes will secure the effective and efficient delivery of the core and supporting processes, be it in a product centric or a customer centric structure. If the core processes in a financial institution focus on the delivery of products, management processes will not allow cross product line initiatives, such as personal financial advice, which complicate the efficient sales and delivery of products.

Information Architecture

Traditionally, the information architecture of a financial service provider can be characterized as a product oriented information architecture. Customer centric strategy and structure however, will require an information architecture to support the customer centric business processes in an optimal way. The change from a product oriented information architecture to a customer centric information architecture is depicted in Figure 6.3.

Figure 6.3: Product Oriented vs. Customer Centric Information Architecture



In a product oriented information architecture, the information systems support the end-to-end process of advice, sales, and service for each of the products. In the channels (branch, call center, and internet) the systems of all product lines converge. As a result, in some of the call centers, the call center agents have to use more than three screens with more than six applications in order to answer one question of the customer.

The customer centric information architecture is supported by a multi-channel distribution platform, that allows customers to be served in assisted self-service and:

- Have an integrated view on customer or household data (CRM).
- Support customers and advisers in personal financial advice (Advice).
- Deliver combinations of products to meet customer needs (Product mixer).

In the product oriented architecture, the only software available to support personal financial advice in an integrated manner is a "stand alone" software package available on the adviser's laptops. In the customer centric architecture though, the application (or rather the software service) to support personal financial advice is at the very heart of the enterprise architecture. It is fully integrated with the back office (products) and middle office systems (like CRM), supporting customer contact in an integrated way, across all channels.

People

With regard to the selection and development of talent, the most distinct differentiation between a product and a customer centric organization is in employees with direct customer contact (Robbins, 2005). The focus diverts from product sales to finding the best way to meet the customer's needs and goals. The change from transactional selling to solutions selling often requires a complete reevaluation of the sales and marketing organization. According to Robbins (2005), organizations that create a customer responsive culture, select service oriented employees with good listening skills, who show a willingness to go the extra mile, to meet customer expectations. Implementing personal financial advice will require a change in personnel, regarding expertise, skills and attitude, from a product to a service focus. Without a change in job descriptions, selection, and training, the personal financial advice environment can be expected to continue a product push.

Rewards

Changing from a product to a customer centric strategy, will, at each level in the organization, have a major impact on the way profit and loss is measured, budgets are allocated, as well as how individual performance targets and reward systems are established. If profit and loss is measured per product line, each product line will try to deliver the best profit contribution, even at the expense of other product lines (because product lines compete for the same euro in the customer's wallet). The customer centric organization will allow the financial institution to form the best combination of products for a specific segment, in each life cycle stage and event. Measuring profit and loss per segment will force the customer centric organization to provide an optimized set of products profitably while increasing customer satisfaction and loyalty. Several initiatives in the industry, from bankers, the insurance companies, the independent agents, and the

government, concentrate on a change in personal rewards and commissions, in order to prevent aggressive sales practices. However, if corporate culture does not change, the reduced bonuses may produce extra stimuli for sales people to push even more products, to provide the same income as before the financial crisis.

Culture

The change from a product centric to a customer centric strategy will impact organizational culture. Applying the characteristics of organizational culture to a product versus a customer centric culture, the following similarities and differences are to be expected (Table 6.1).

Organizational Culture Characteristics	Score: 1 = Low and 5 = High				
	1	2	3	4	5
Innovation and risk taking			■●		
Attention to detail				■●	
People orientation			■●		
Outcome orientation		■		●	
Team orientation	■				●
Aggressiveness		●			■
Stability	●		■		

Legend: ■ = Product Centric Culture ● = Customer Centric Culture

Table 6.1: Product vs. Customer Centric Culture, based on Robbins (2005)

The similarities and differences in the organization cultures are clarified below.

Risk taking is at the core of the banking and insurance business, yet at the same time risk management is essential to ensure a profitable outcome. In both the product and customer centric culture, a proper balance between risk taking and risk management is required. However, the manner in which risk management is implemented, differs substantially. While in a product centric culture the risk can be reduced by transferring risk to clients, a customer centric culture will manage the risk for the client, thus reducing the risk of default for both the client and the financial service provider.

Attention to detail is required in both the product and customer oriented culture, although the main subject of detailed analysis will differ: the product aspects vs. the customer's needs and goals. Outcome (result) orientation is high in both cultures, yet will be harnessed by internal and external regulations.

The product and customer oriented cultures diverge the most in people orientation, team orientation, and aggressiveness. In a product oriented culture people are focused on their own product line and competition between product lines is accepted and some-

times even stimulated. The customer oriented culture will require people to collaborate across product lines, across hierarchical levels, and with customers, to develop the optimum solutions to meet customer demands.

In terms of stability and emphasis on maintaining status quo, the product oriented culture is rigorous in selling more of the same, while a customer centric culture needs to be more flexible to be able to adapt products and services to the customer's changing needs.

Organizational Implications

The organizational implications of the implementation of (fundamental changes in) personal financial advice depend highly on the characteristics of the current organization of the financial service provider.

If the financial service provider's organization is characterized as product centric, the effective implementation of personal financial advice as here presented, will require great effort to cross the boundaries between the product units.

If on the other hand, the financial service provider's organization is characterized as customer centric, implementation of personal financial advice will be in line with the strategy, the structure, the business processes, the information architecture, the rewards, and the culture.

Many financial service providers are in the process of changing from product to customer centricity. They have adopted a customer centric strategy and are changing reward systems to support a customer focus. However, only few have aligned the structure, the processes, the information architecture, the people, and the culture accordingly. The parliamentary committee researching the financial sector (Commissie de Wit, 2010) underlines the suggestions made by the committee of bankers towards customer centricity (Adviescommissie Toekomst Banken, 2009). However, the parliamentary committee adds that customer centricity needs to be accentuated in the areas of remuneration, risk management, and the necessary change in culture and behavior.

The monitoring committee of the banks, looking after the implementation of the banking code, presented a preliminary report in December 2010, describing the struggle banks have with the concept of customer centricity (Monitoring Commissie Code Banken, 2010). The committee reports that initially, some of the banks thought only a minor change would be sufficient. However, there is a growing awareness, that fundamental changes are required to regain public trust. The Monitoring Committee underlines the need to enforce a cultural change, which demands a total reconsideration of all procedures and processes within the company. Of the 43 banks reviewed, the Monitoring Committee reports that one third of the banks have adapted their core values, more than half of the banks initiated a cultural change program, 75% have re-evaluated their prod-

uct portfolio, 55% of the banks introduced performance indicators for customer centrality, 60% of the banks reported having adapted business processes in the bank, however, only 25% have adapted their employee selection process (Monitoring Commissie Code Banken, 2010).

The committee concludes that the banking code has not yet been fully embraced and that urgency and priority must be increased to deliver visible progress in 2011.

It is promising to see that many banks have initiated a cultural change program, however, implementing a customer centric strategy requires a change in all organizational aspects, including the organizational structure, the core processes, and the information architecture, from product to customer centrality. The report of the monitoring committee mentions that there have been changes in teams and organization structures, but the structural changes seem to be limited.

Kates and Galbraith (2007) describe that organizations in many different industries undergo the change from product to customer centrality because they cannot survive on the basis of commoditized products or simple transactions, and cannot extract more efficiency from their operations in order to lower costs. Those companies all need to compete by adding value and switch to a customer centric strategy. In a study of 347 organizations deploying customer centric strategies, most respondents emphasized that in order to overcome the inertia of the current organizational form, there had to be a powerful strategic reason to reorganize around markets (Kates and Galbraith, 2007).

6.2 THRESHOLDS IN IMPLEMENTING A CUSTOMER CENTRIC ORGANIZATION

In his study on decision making, Herbert Simon concluded that decisions within large administrative organizations are characterized by bounded rationality (Simon, 1997). Management and staff in a large organization make rational decisions within the boundaries of their responsibilities. Simon observed that people are, to some extent, rational beings in that they will try to logically comprehend things and make sensible choices. However, people are limited in their capacity to understand everything because the world is large and complex. Moreover, there are time limitations in which to make decisions, and people reduce information and alternative considerations, based on organizational boundaries and experience.

The end result of decisions based on bounded rationality can sometimes be contrary to the company's goal.

As a consultant involved in projects focusing on the implementation of personal financial advice and the creation of a customer centric organization, management and staff in financial services companies have provided various arguments preventing change from happening. Several of these arguments are captured below.

Management Considerations

1. At a large Dutch bank, with a product oriented organization structure, top management considered implementing a customer centric approach and personal financial advice. Management was convinced of the benefits of customer centricity for the customers, the employees, and the shareholders. Still, they decided to maintain the present structure and processes because the change to customer centricity would require a complete overhaul of the organization. Big changes imply high investments, take a long time, and include heavy risks, which can outweigh the benefits, especially in the short run. Since management is (internally and externally) evaluated on the basis of quarterly results, these changes tend to be postponed until it is (almost) too late.
2. A small Norwegian private bank wanted to rapidly increase its customer base in the mass affluent segment. A customer centric approach was embraced, supported by personal financial advice and delivering intelligent combinations of products (including an all in one account), that match customer needs. Concerns were raised after realizing, that their present customer base would also like to reap the benefits of the new combined products. This would reduce the spread (the interest margin) of the bank on products already sold. A comparison was made between the risk of a reduced interest margin on existing customers, and the business benefits of the additional new customers. Even though the cannibalizing effect on the margin of the present customer base was surpassed several times by the expected additional interest gained from the targeted Mass Affluent customers, the risk was assessed as being too high, and the initiative was abandoned.
3. A large retail bank was in the process of implementing personal financial advice, till the moment the financial crisis forced top management to cut investment budgets and reprioritize.
4. In the insurance case study mentioned in paragraph 5.4.1, the initial enthusiasm for implementing personal financial advice ended in a conflict of the insurance company board with the representatives of the independent financial agents, on the split of investments costs and returns. A balance in the costs, risks, and rewards has to be agreed upon by all parties.
5. After the financial crisis, a major bank requested a revolutionary approach to change their retail bank into a customer centric bank. After a presentation on the required

transformation, top management was concerned whether the rest of the bank would be able to follow, and reconsidered.

Middle Management and Expert Staff Considerations

1. Managers of product lines all agree that a customer centric approach is in the best interest of the customers and the bank, as long as their product line is in charge of setting up personal financial advice, resulting in advice that includes their products. Initiatives to establish personal financial advice across product lines, do not receive the required support and budgets, resulting in a multitude of advice applications, each supporting a specific product.
2. At a large bank, the initiative to implement personal financial advice was managed by the private banking segment. Financial planning experts required the new advice application to be able to support even the most complex cases. The result was a design too complex to implement within available time lines, resources, and budgets, while the financial benefits of the additional requirements remained unclear. The project was abandoned and the retail segment was frustrated by this lack of expedience: a simple and straightforward solution would have sufficed.
3. At an insurance company a customer centric organization structure was implemented. Directly under the board, a distribution unit was set up to determine the service concept and product portfolio for each customer segment. Product units were expected to support the distribution unit, delivering the products in the most effective and efficient way. While the new distribution unit was still in the process of determining a customer centric distribution strategy, the old product oriented structure, culture and power base revolted. Soon thereafter, the new appointed director of distribution left the company and the old product oriented structure was reinstalled.
4. A director of a large retail bank evaluated a strategic customer centric initiative, supported by personal financial advice. On the basis of detailed market analysis a positive business case was presented. The director however, just terminated an unsuccessful two year implementation of a CRM system in which he lost all faith in technology, as an enabler of the business. He disregarded the market analysis as being too good to be true, and resorted to the traditional model of building personal relationships with clients as the only sound basis for the banking business.
5. A manager responsible for the financial advice practice at a bank, considered to implement financial advice through assisted self-service. However, this might expose that advisers had worked rather inefficiently over the last couple of years, which could have undesired repercussions for all involved. His final consideration was not to rock the boat, and look for incremental ways forward.

6. Implementation of personal financial advice will require the input of experts in many domains. In a large organization, there are various experts who can obstruct new developments. Some of the expert remarks are mentioned here:
 - a. Sales expert: I demand all calculations in financial planning to be based on net income (even though it is impossible to calculate effects on net income, without asking for gross income).
 - b. Marketing: I am new at this job and have not worked in financial services before. Instead of launching personal financial advice, I was thinking more in the line of doing a direct-mail campaign, to promote our new internet savings product.
 - c. IT architect: Although we have not found any serious flaws in the proposed solution to support personal financial advice, that does not prove there are none. I propose a more detailed analysis, before we decide to implement the solution.
 - d. Legal & compliance: We cannot agree with this set up before the details of the service contract and disclaimers have been reviewed and agreed upon. However, we have no time to do this in the next six months.
 - e. Tax experts: The question on how the deductibility of mortgage interest payments in these specific cases should be calculated, has been under debate between experts over the last year and is not expected to be resolved soon. Until then, we cannot agree with the proposed set up.
 - f. Product experts: Proud of their new innovative mortgage product, a product manager adds 300 basis points here and there, resulting in an expensive product from the customer's perspective. If asked why, the comment is that none of the competitors have a similar product to match.

IT Management Considerations

1. In many financial institutions, 80% of the total budget for IT is spent on maintenance of existing applications. The available 20% for new functionality is spent for 80% on must do initiatives, for instance new legal requirements. The remainder of the budget for innovations is managed by a prioritized list of initiatives. New initiatives can only be realized if others are pushed back on the list.
2. Priorities are set by the business. As long as the business is structured primarily through product lines, cross product line initiatives have a low priority.
3. A large bank outsourced its application development to an Indian IT company. Building financial advice applications, including the intricate Dutch social security and tax regulations, resulted in a continuous flow of messages: "Please specify?". Over a period of one year, no single line of code passed the acceptance test.
4. A solution engineer at a financial institution received the assignment to select the best packaged software available in the world, to support integrated financial ad-

vice. In one of his first meetings with a supplier he was presented the global best practice, based on international research reports. In vain, he tried to find a better solution over the next ten months.

The experiences mentioned above support the view that Herbert Simon correctly observed that the decisions made are rational, within the boundaries of a specific organizational position, the available time, and based on limited information, experience, and capabilities. Not surprisingly, bounded rationality remains to be a basic concept in modern texts on Organizational behavior (Robbins, 2005; Huczynski & Buchanan, 2007) and is widely supported by academics studying the human decision making process (Kahneman, 2000; Prast, 2005; Thaler & Sunstein, 2008; Goldstein, Martin & Cialdini, 2008; Cialdini, 2009).

It is logical that top management is not inclined to alter course, unless absolutely convinced of the urgent necessity to do so.

It is equally rational that middle management and experts evaluate new initiatives on the contribution to the goals and targets for which they are responsible. And it is reasonable, that IT management has implemented strict guidelines to determine priorities for innovative projects and attains to make optimal use of available funds by off shoring development activities.

Some of the considerations mentioned above can also be classified as a resistance to change. One of the best documented findings in Organizational Behavior is that organizations and their members resist change (Robbins, 2005). Resistance to change is positive, in creating a degree of stability. Without resistance to change an organization would be in chaos. On the other hand, resistance to change can hinder adaptation and

Individual Sources of Resistance to Change
Habit - The tendency to respond in accustomed ways.
Security – People can experience change as a threat.
Economic factors – People can fear a loss of income and status.
Fear of the unknown – Change creates ambiguity and uncertainty.
Selective information processing – To leave perceptions intact.
Organizational Sources of Resistance to Change
Structural inertia – Built in mechanisms produce stability.
Limited focus – Changes in sub systems are nullified by the larger system.
Group inertia – Group norms can restrain individuals to change.
Threat to expertise – Changes may threaten expertise of specialists.
Established power relationships – Changes threaten power relationships.
Resource allocations – Threat to groups that control sizable resources.

Table 6.2: Major Sources of Resistance to Change, According to Robbins (2005)

progress. Robbins summarizes the major forces for resistance to change, categorized by individual and organizational sources (see Table 6.2).

In conclusion, people in organizations can be expected to react to a strategic change initiative on the basis of bounded rationality and/or a resistance to change. As a consequence, it can be expected that large financial institutions altering their strategy towards customer centricity, may find out years later, that in practice, nothing really changed. Understanding corporate strategy is not about capturing the formal corporate strategy statement, but requires a study on how the strategy is implemented. Strategic decisions are made (supported or disregarded) on every level of the organization. To change a company from a product orientation to customer centricity, a change in strategy is important but not sufficient. A change from a product to a customer centric organization requires a transformation (Kates and Galbraith, 2007).

6.3 THEORIES AND MODELS SUPPORTING TRANSFORMATION

Transformation is a term that is used in many domains to describe a fundamental change. In transformation the change is not limited to the outside, but will include the inside as well. Often the transformation of a caterpillar into a butterfly is used as an example. Change has been predicted to become more of a standard than an exception, as mentioned by Peter Drucker (1969) in his famous book *The Age of Discontinuity*. John Adams (1986) describes organizational transformation as a new way to adapt the goals of an organization, to a changing and wider environment, supporting the necessary fundamental changes with:

- A clear and inspirational vision about the direction for the future.
- A new viewpoint on the premises that underlie "business as usual".
- A review of the common beliefs and habits within the organization.
- Leadership that encourages people to contribute to the vision.
- Excellent results through optimized processes.
- People realizing their capabilities.

Information technology and globalization have increased the speed of change even more, and business transformation now has become a continuous process. Business transformation is defined as a strategic, enterprise-wide change project that has a profound impact on the organization's capabilities, environment, processes and performance. In a study among 125 senior executives from Western European companies, 86% of respondents

agreed that “business transformation has become a central way of working” (Capgemini Consulting and The Economist Intelligence Unit, 2007). From this study, the six most important external trends driving the need for business transformation are:

- Increased competition from overseas competitors.
- Industry consolidation.
- Increased competition from domestic competitors.
- Technological change.
- Changing customer preferences.
- Regulatory change/government policy.

In the financial services sector, all of these trends take place simultaneously.

Balogun and Hope Hailey (2008) describe transformation as a change which cannot be handled within the existing paradigm and organizational routines; it entails a change in the taken-for-granted assumptions and “the way of doing things around here”. It is a fundamental change within the organization, requiring a shift in strategy, structures, systems, processes, and culture. Balogun and Hope Hailey (2008) distinguish the following types of change(see Table 6.3.)

		End result of change	
		Transformation	Realignment
Nature of change	Incremental	Evolution	Adaptation
	Big Bang	Revolution	Reconstruction

Table 6.3: Types of change according to Balogun and Hope Hailey (2008)

Looking at the end result of change, Balogun and Hope Hailey identify:

- Transformation, as a fundamental change which cannot be handled within existing organizational routines.
- Realignment, as a change in the way of doing things that does not involve a fundamental reappraisal of central assumptions and beliefs.

According to this distinction, the implementation of personal financial advice and the accompanying change towards a customer centric organization can be categorized as a transformation because it heavily impacts all the organizational routines.

Looking at the nature of change, Balogun and Hailey (2008) differentiate between two ways to implement change:

- Incremental change, as a step-by-step and stage-by-stage approach.
- Big bang, a sudden change over a period of a year to 18 months.

As a result, according to Table 6.3, transformation towards a customer centric organization can be implemented in two ways, by way of the evolutionary approach or the revolutionary approach.

Evolutionary Approach to Transformation

Balogun and Hope Hailey (2008) mention that the evolutionary approach implements transformation gradually through different stages and interrelated initiatives. It is a planned, proactive transformation, in which change is undertaken by managers in response to their anticipation of the need for future change. A series of phased initiatives and investments can create a new culture and organizational identity.

An evolutionary approach to transformation is illustrated in the book *The Tipping Point*, in which Malcolm Gladwell (2002) describes case studies of small changes that have had a huge effect. He makes the comparison with epidemics. New ideas, products, messages, and behavior spread like viruses. At the tipping point, the momentum for change becomes unstoppable. Gladwell (2002) describes three factors that help reach the tipping point:

1. **People:** The success is heavily dependent on the involvement of three types of people with a particular and rare set of social gifts. Connectors, who combine curiosity, self-confidence, sociability, and energy, in bringing the world together. Mavens, who accumulate knowledge and new ideas sharing them with others. Salesmen, who are able persuaders and are convincing in having others agree with them.
2. **Stickiness:** That what makes an idea or message unforgettable.
3. **The context:** The right timing, conditions, and circumstances, which will allow a new idea to spread.

Revolutionary Approach to Transformation

The revolutionary approach, according to Balogun and Hope Hailey (2008), occurs through simultaneous change initiatives on many fronts, in a relative short space of time, such as 18 months. It is likely to be a forced, reactive transformation, due to changing competitive conditions, or the necessity to meet changing customer needs. If the organization is to survive, in spite of still being rooted in the old ways, the mismatch between old and new strategy may be so great, that fundamental change will have to be enforced in a short period of time.

Balogun and Hope Hailey (2008) underline that people require time to change their behavior, and an even longer time to change attitudes. Some people are not willing or even able to make the transition. The revolutionary approach therefore is often accompanied

by a process of natural attrition, as those less able and willing are replaced by individuals more suited to the new ways of working.

In their book on execution of business transformation, Morgan et al. (2010) focus on the question how to transform an organization from a seller of products to a provider of higher-value-added offerings. They underline that change is not an option: It is a requirement. Morgan et al. describe the revolutionary approach in more detail and underline the importance of cultural change, which extends to all aspects of the organization. Morgan et al. claim that culture cannot be changed directly, but rather by modifying the artifacts of how things are done. Starting with a clear view on the change in customer outcome, for instance, from delivered product to turnkey solution. From this starting point, the implications for all other aspects of the organization are identified. Morgan et al. (2010) underline the importance of the willingness to let go of the things that made the company successful in the past, the need for leaders to acquire new leadership skills, communication to assure that people will make decisions that are aligned with the transformation, the acknowledgement that transformation requires more than expensive software, and the focus on short term return on capital can be counter strategic. Special attention is raised by Morgan et al. (2010) concerning the capabilities to manage the complexity of a transformation process, in terms of portfolio management, program management, project management, and process management.

Criteria to Decide on Change Approach

Comparing the two approaches for implementing transformational change, the key differentiator in selecting an evolutionary or revolutionary approach, is urgency.

Urgency, as the determinant of the way change is implemented, is supported by Morgan et al. (2010). Morgan et al. observe that human beings tend to avoid difficulty and complexity. They claim that this tendency leads to a preference for quick fixes at low cost. However, over the last two decades, there are two trends that have driven organizations to complete organizational transformation i.e., commoditization and saturation. Commoditization, according to Morgan et al. (2010), results in reduced margins, while saturation makes it impossible to increase sales volume. Morgan et al. describe that these two trends create a "burning platform" for companies in various industries, such as agriculture, automobiles, telecom, information technology, retail and utility. Morgan et al. conclude that it is the urgency to change, that drives organizations to transformation, delivering higher-value solutions that cannot be reached with products alone.

6.4 PLANNING FOR CHANGE

Based on the alternative ways to implement transformation, the two scenarios for the implementation of (fundamental change in) personal financial advice and a customer centric organization will be explored.

6.4.1 EVOLUTIONARY CHANGE SCENARIO

The evolutionary change scenario to implement a customer centric organization and personal financial advice requires a set of interrelated initiatives and investments. In the redesign of the personal financial planning practice for the (mass) affluent segment at a Dutch bank, described in paragraph 5.4.2, a modular financial plan was introduced. The modular financial plans can be implemented in a step by step approach. The implementation of the first modular financial plan should be well prepared, to serve as the cornerstone for all subsequent modular plans.

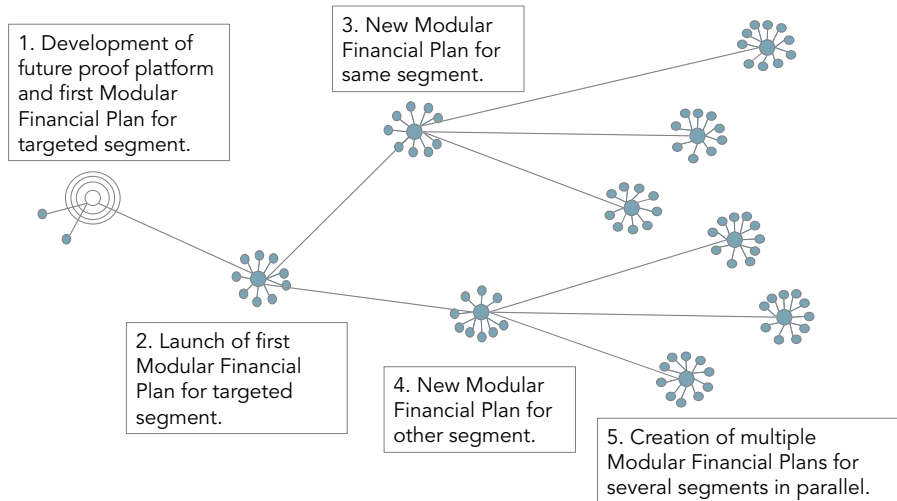
A common platform should be selected, that over time will be able to cater a multitude of modular financial plans for various customer segment, life stages and life events. The integration of the financial advice application with existing information systems like CRM, should be conceived from the start. The processes for assisted self-service, remote support, and face-to-face support will be designed and implemented in such a way, that they will be able to support a growing number of modular financial plans in the future.

Only one modular financial plan will be implemented during the initial step, for instance, the modular plan for the couple of first time home owners, with double income and no kids. Concentration on the implementation of just one modular plan will substantially reduce the required resources, investments, risks, and time to market, while business as usual can continue for the remainder of the organization. The end-to-end process for the modular financial plan will be supported, including a dedicated and targeted marketing campaign. A training program for a selected number of advisers and call center agents will take place. After the launch of the first modular financial plan, the effects on customer satisfaction, customer retention, revenue growth, and cost reduction will be analyzed. All aspects of the concept will be evaluated and on the basis of the evaluation, the implementation of a second and third modular plan will be prepared:

- A new modular plan for the same segment, for instance a world tour for the couple with double income and no kids.
- A comparable plan for another segment, for instance a first home for a couple with two children, which will require some additional services.

The incremental approach is depicted in Figure 6.4.

Figure 6.4: An Incremental Approach to Personal Financial Advice



Following the approach of Gladwell (2002), implementing personal financial advice in an evolutionary way, through the launch of Modular Financial Plans, will require the right people, a sticky message and the right context. If the first implementations of the Modular Financial Plans prove to be successful, the approach will continue to grow and can be expected to reach the tipping point, resulting in a companywide transformation. In evaluating the evolutionary approach as a path to implement personal financial advice and a customer centric organization Table 6.4 summarizes the pros and cons.

With the advantage of almost immediate results with limited efforts, the main drawback of the evolutionary approach is that success is highly dependent on people with ex-

Evaluating the Evolutionary Approach to Implement Personal Financial Advice	
Pros	Cons
No need for heavy strategic decisions	No strong commitment
Limited investment	Risk to be nullified by the larger system
Limited resources required	Need for people with rare social skills
Swift time to market	Need for sticky message
Immediate benefits	Dependence on success first launch
Step by step implementation	Dependent on followers
Accelerated "virus like" adoption	Dependent on timing and conditions

Table 6.4: Pros & Cons of the Evolutionary Approach to Personal Financial Advice

traordinary communication skills and favorable conditions. The conditions for customer centric initiatives in a product centric organization cannot be regarded as favorable. As in all evolutionary processes, the spreading of a new idea or virus is highly dependent on chance and circumstances. Although it is possible to implement transformation on the basis of the evolutionary approach, many initiatives will be terminated, before reaching the tipping point.

6.4.2 REVOLUTIONARY CHANGE SCENARIO

A revolutionary approach may be considered if the need and urgency to change is perceived as being high, for instance, as a result of the financial crisis, competition, customer demands, and legal requirements. Moreover, if the existing strategy and culture is still rooted in a product focus, while a swift change to customers centrality is essential to survive, a revolutionary approach is the only realistic way forward. Simultaneous initiatives will be started on many fronts, including strategy, structure, processes, information architecture, people, rewards, and culture.

The risk of losing people along the way, not willing or able to make the required change, has to be accepted. Yet, every company will try to ensure that the majority, if not all employees, are retained and motivated to put in their best effort because business as usual needs to continue during the transformation process.

To mobilize the required number of employees and accelerate the process of awareness, understanding, support, involvement, and commitment, a broad representation of management, staff and key personnel is required to participate at the start of the transformation program, to become aware of the need and urgency to change, to validate the proposed direction, to help paint the future, to discuss alternative scenarios, and to define the transformation roadmap.

A special environment and professional facilitation will enable a large number of people from different backgrounds, to work together in an intense atmosphere, foster creative thinking and collaboration, delivering workable solutions in days instead of weeks or months. After the initial kick off, the special workshop environment will be available for high performing teams to produce detailed designs and plans in every of the domains selected. The multi-year transformation roadmap will provide a visual representation of the transformation journey. At a high level, a view is delivered of every pathway to achieve the envisaged end state. The roadmap will provide an invaluable tool for communicating

the transformation pathway to the greater community. It also provides a basis on how the project is tracking against business objectives.

A change to the customer centric structure will be implemented top down and as soon as possible, to limit the paralyzing effect of uncertainty about jobs and positions. While implementing the new structure, new communication lines, as well as control and reward systems need to be established. Special attention is required to dismantle the old structures and controls, to prevent conflicts between the old and new way of working.

Business processes will be designed and implemented to support the development and deployment of a multitude of modular financial plans. The modular financial plans will be launched in parallel for designated segments, life stages, and life events.

A central financial advice unit will be set up to define, maintain, and control the corporate advice policy, and its implementation in various modular financial plans.

In the product development department, a special team will be set up to develop (all in one) combinations of product packages, matching the goals and needs of specific customer segments in the most effective way.

New key performance indicators and reward structures will be implemented for all employees, including management and advisers, to align individual behaviour with the customer centric strategy.

The transformation to a customer centric information architecture will be realized by implementing new technologies, new methods and tools for design, build, test, and maintenance. A customer centric multi-channel distribution platform will support CRM, personal advice, and a product mixer in an integrated way.

Special attention will be required for the cultural shift and dedicated efforts will be needed to disperse and confirm the new values and way of working. Positive results will be celebrated and commended. Table 6.5 captures the main pros and cons of a revolutionary approach to transformation.

The revolutionary approach enforces the transformation towards a customer centric organization with the commitment and power required to implement a major change program, within a limited time frame. The revolutionary approach will require creative destruction of the old ways of working. This implies that the transformation is an irrevocable process: once initiated, there is no turning back. The high investments, high risks, expected levels of resistance, and uncertainty about the benefits, will make top management decide for a revolutionary approach only in case of last resort.

Evaluating the Revolutionary Approach to Implement Personal Financial Advice	
Pros	Cons
Top Management commitment	Awareness of urgency to change required
Substantial change budget available	Resistance to change
Transformation is top priority	Business continuity during transformation
Mobilization of ample resources	Need for transformation skills
Accelerated implementation	Need to enforce change
Immediate involvement of all personnel	Attrition
Major impact on results	Major risks

Table 6.5: Pros & Cons of the Revolutionary Approach to Personal Financial Advice

6.4.3 CONCLUSIONS ON PLANNING FOR ACTION

In deciding to implement transformation, the ultimate criterion is the urgency to change, as perceived by top management. If the urgency to change is not perceived as a top priority, evolution is the only way forward.

Balogun and Hope Hailey (2008) underline the importance of change paths as compared to change types. Over time companies may change between change types. For instance, a company may start with an evolutionary approach to transformation (because the urgency is not perceived to be great enough), and later change to a revolutionary style (if the urgency for immediate change is evident). Good timing in determining the change path proves to be crucial.

The bankruptcy of DSB bank in The Netherlands, is a case in which the need for transformation was indicated several years prior to the bankruptcy by the customers, the regulators, the press and internally (Commissie Scheltema, 2010). However, initially, top management did not perceive the need to change as urgent. The old ways of doing business proved difficult to alter. In the end, pressures increased to such an extent, that the bank agreed to make radical changes by compensating customers beyond what was customary in the market. The CEO even agreed to step down. However, it turned out to be too late as a bank run took place.

Financial institutions that have received a guarantee from the government because they are too big to fail, may conclude that the urgency for change has ceased. The immediate risk of bankruptcy is dissolved. In this way, government intervention may have prevented top management to transform to a customer centric organization, by diminishing the pressure. In these cases, initiatives to transform through an evolutionary approach can easily be nullified. As a result, some of the financial institutions already seem to fall back

into old habits, as if the financial crisis never happened. However, if the product centric focus that facilitated the development of the financial crisis remains, it is likely that over time, an even bigger financial crisis will occur, too big for the government to intervene. Alternatively, the captains of the financial services sector can acknowledge that even though the continuity of their corporation is not at stake at the moment, the financial crisis has shown that the product centric business model has inclined advisers, staff, and managers to neglect customer's interest thus creating huge problems for customers, the financial institution, the financial services sector, and the (global) economy. To prevent these problems from arising again, the decision to transform into a customer centric organization and the implementation of personal financial advice must be considered. Accomplishing the transformation with the power and commitment that normally is reserved for a revolutionary approach, while using the extra time and resources made available by government support, to implement in an evolutionary way.

If the leaders of the financial services industry do not initiate a transformation towards a customer centric organization, the regulators could gradually encourage or force them to do so, by specifying the norms for the personal financial advice process in an unambiguous way. For instance, as is done in other industries like aviation, through certification. With certification the norms for the products and the production process are established in such a way that the quality is ensured. In the same way regulators can set the norms for the personal financial advice process to ascertain the quality of the financial advice delivered.

Ultimately, the transformation of the organization of financial service providers is a people's process. It involves and requires personal transformation. People, from top managers to financial advisers and all other employees in the organization, will go through a personal transition process:

- Acknowledging the need and urgency for change of the organization.
- Acknowledging the need and urgency to change their personal behavior.
- Creating a clear and inspiring vision for the future.
- Using creative powers to leap forward.
- Collaborating with all stakeholders during the transformation process.

The fundamental changes in personal financial advice and the transformation into a customer centric organization is only complete, if they are embraced by all employees.

CHAPTER 7



RECOMMENDATIONS

**RECOMMENDATIONS TO FINANCIAL SERVICE
PROVIDERS**

RECOMMENDATIONS TO REGULATORS

RECOMMENDATIONS TO THE GOVERNMENT

CONCLUSIONS

7. RECOMMENDATIONS

In this chapter, recommendations are presented for financial service providers, regulators, and the government.

7.1 RECOMMENDATIONS TO FINANCIAL SERVICE PROVIDERS

This dissertation describes four major and urgent reasons for financial service providers to implement personal financial advice:

1. **Regain trust:** Trust is the basis for every business and even more so in financial services. Financial service providers involved in claims and controversy have to prevent questionable practices in the future. The good apples on the contrary, the financial service providers not involved in bad practices, have even more at stake; one bad apple affects all. Personal financial advice is key to ensure the quality of financial services delivered and prevents poor advice practices to continue.
2. **Improve compliance while reducing cost-to-serve:** Delivering personal financial advice in the traditional way is labor-intensive and costly. New regulations will increase the cost-to-serve even more. Furthermore, profitability is reduced as a result of a ban on commissions and increased competition. Personal financial advice as presented here, is able to deliver advice in line with internal and external regulations and reduce cost-to-serve substantially, resulting in profitable sales.
3. **Major growth opportunities:** Severe cutbacks in social security and collective corporate arrangements create huge opportunities for financial service providers to deliver additional financial products. Moreover, supplementary financial needs result from modern lifestyle: part time work, parent leave, job hopping, working abroad, children's education, sabbatical, divorce and alimony. Personal financial advice is an essential service to match the financial needs of customers with an optimized set of additional products.
4. **Beat competition:** The well established financial service providers suffer from increased competition, especially from niche players, that deliver one single product very efficiently at competitive prices and conditions. The large financial service providers can beat the niche players by delivering an intelligent combination of products, matched to the financial goals and needs of the customer, at even better con-

ditions, as a result of synergy effects. In order to do so, personal financial advice is crucial.

Personal financial advice as presented here can regain trust, ensure compliance with internal and external regulations, reduce costs-to-serve, support profitable revenue growth, beat competition, and gain market share. This will, however, require a fundamental change in the way personal financial advice is delivered. Moreover, implementation of personal financial advice will deliver best results in a customer centric organization, where personal financial advice is an essential part of the core business process: helping customers to manage their personal finances effectively.

Many financial institutes have already adopted a customer centric strategy, in line with suggestions made by the associations of the banks and the insurance companies. However, a change in strategy is insufficient to move an organization from product to customer centricity. A fundamental shift in behavior can only be expected, if the organization changes in all its aspects consistently. The customer centric strategy needs to be translated into a customer centric organizational structure, business processes, information architecture, performance and remuneration schemes, staffing and training programs, as well as corporate culture.

Two alternative approaches have been discussed to transform the organization from a product into a customer centric organization. Firstly, the evolutionary approach presents serious risks of being nullified in a product centric organization. Secondly, the revolutionary approach runs the risk of being too complex to manage, especially because the business as usual needs to continue during the transformation.

A change path is suggested that starts with an evolutionary approach, supported by the power and commitment normally used in the revolutionary approach, necessary to create positive conditions for the early initiatives to foster:

- The implementation of a platform for personal financial advice that over time will be able to support all customers.
- The selection of a limited number of customer segments, in specific life stages and specific life events.
- The development of standardized plans supported by a packaged set of products and services that match the goals, needs, and capabilities of the targeted segments.
- The delivery of standardized plans for targeted client segments, with room for personalization, through self-service channels, remote support and personal advice, if so required.

- The evaluation of results from the first implementations and optimization of the customer centric approach over time, improving the delivery of new standardized plans for other segments.
- The expansion of this new way of working, until the tipping point is reached and further change becomes unstoppable.

This approach delivers immediate results based on limited investments, efforts and risks. It allows for an organic growth path, while “business as usual” can continue. Management should secure the best possible conditions for these initiatives to grow and foster. Thus, small initiatives can ultimately change the organization’s way of doing business.

The transformation approach described, might be the last and final chance for financial service providers to transform into a customer centric organization. Organizations with strong capabilities in technology and social media, combined with deep pockets to invest in marketing, such as Google or Microsoft, can be expected to enter the financial services arena, with a virtual guardian angel, supporting customers to manage their personal finances effectively. These parties may take over the customer relationship and leave the present financial service providers to deliver products only at the best possible price and conditions.

If Google and Microsoft decide not (yet) to enter the financial services market, other parties such as retailers, telecom providers or perhaps one of the comparison sites will. Alternatively, a large financial service provider can set up a new company providing personal financial advice, under a separate brand name. Now that technology and concepts are readily available, it is not a question if, but rather who and when.

In the end, transformation is all about decision making. Not about what decision to take because the direction is clear, but when. Confucius provides a guideline to help people move from consideration into action: “If not you, who? If not now, when?” Transformation, ultimately, is about the courage to take decisions and the stamina to act accordingly.

Although the proposed fundamental change in personal financial advice has not been implemented on a large scale in real-life yet, case studies implicate that the concepts can be implemented successfully. Personal financial advice delivered in the fundamentally different and innovative way, can be expected to:

- Meet internal and external regulations securing the quality of advice.
- Support a growing number of customers in need of sound financial advice.
- Match customer goals, needs, and capabilities, now and for the future.
- Deliver packaged solutions that optimize associated benefits, costs, and risks.

- Balance the interests of the customer, the adviser and the product provider.
- Allow customers to be in control of their own finances.
- Regain public trust in financial service providers.
- Deliver personal financial advice in a profitable way.
- Increase revenue by optimized cross selling.
- Reduce costs-to-serve per customer.
- Support a lifelong mutually beneficial relationship with the customer.
- Improve risk management for the customer and the financial service provider.
- Prevent poor advice practices that harm the image of the financial sector.
- Attract new customers.
- Beat competition.

7.2 RECOMMENDATIONS TO REGULATORS

The recommendations to regulators concentrate on establishing standards as well as supervision and control.

Setting Standards

The financial services market in The Netherlands has suffered from a series of complaints in regard to financial products delivered. The Dutch regulator AFM, installed in 2002, produced a substantial number of reports and initiatives to improve the quality of financial advice. Financial service providers though, complain that these new rules and regulations increase the operating costs of financial advice. Moreover, these rules and regulations increase the risk for financial service providers of claims from customers and subsequent reputational damage.

Research presented here, supports the view that financial advice in the traditional way is so labor intensive, that personal financial advice for the retail and mass affluent market, is economically not a viable option for the future. Increased competition, the abolishment of commissions for complex financial products and additional regulations will further reduce the margin on personal financial advice.

There is a growing acceptance among the public, to pay for the services of a financial adviser. However, a substantial gap remains between what consumers on average are willing to pay, versus the costs involved. Moreover, many people are not willing or able to pay for financial advice at all.

As a consequence, the efforts to improve the quality of financial advice leads to a situation where the costs of financial advice will limit the availability of financial advice to the most wealthy of Dutch households and those who are willing to pay a substantial fee.

In this study an alternative way of delivering personal financial advice is presented, based on standardized financial plans for specific customer segments, life stages, and life events. These will be delivered through self-service channels, if so required complemented by remote support from experts or a personal meeting with a financial adviser. Personalization of the standardized plan is supported, to meet specific customer preferences. This type of personal financial advice can be delivered efficiently and profitably to a large volume of customers. It will be able to make people aware of gaps in income, in the short and long run. It will promote an optimized package of financial products, that matches the goals, needs, and financial capabilities of the customer.

Personal financial advice as presented here, contradicts some aspects of the customer care regulations. The AFM reports demand an adviser to discuss certain aspects with a customer personally (for instance in determining risk profiles), on the premise that each client is unique. However, if AFM reports are to be followed, the cost of investment advice (whether paid in commission or fees) can annihilate the expected return of the investment.

One could argue that a meeting between a customer and adviser, for instance on determining the risk profile, can result in lack of transparency, as much as it can clarify positions. Customers easily express opposite opinions in one meeting or sentence, and expect the adviser to know what to do. Self-service tools immediately confront clients with the consequences of alternative positions and require the client to decide between one or the other. Moreover, in self-service, the audit trail is irrefutable and the clear cut decisions made by the client can be implemented straightforwardly and monitored over time.

Personal financial advice as delivered through assisted self-service based on a standardized plan, can be as good or perhaps even better than advice delivered through the traditional approach. Due to the availability of expertise, that can be put into the development of a standardized plan, including dedicated product combinations to meet specific needs of the targeted customer segment. However, there will always be cases so distinct, that a standardized plan will not be adequate and personal professional advice is the only way to deliver superior results.

Other conflicts with present customer care regulations relate to the use of knowledge and experience of the customer in defining the risk profile.

It might be possible to evade discussions on compliance with customer care regulations by the use of a disclaimer, stating that the standardized plan is intended for information purposes only. In this case, the standardized plan is available on the internet as a Financial Navigator or a Virtual Financial Assistant, in much the same way as the GPS navigator in a car. The tool supports customers in determining their current financial position, where they would like to go and how to get there. The Financial Navigator can even include the choice for the fastest route, with more risk or a slower route, that will get you where you want safely. The customer, however, remains in control and is ultimately and solely responsible for decisions taken.

In conclusion, the first recommendation for the AFM is to adapt customer care regulations in such a way, that personal financial advice as presented in this dissertation, is allowed.

Supervision and Control

The AFM supports initiatives that improve the quality of the financial advice practice, for instance by the initiation of DSI, which is a public register of professionals, who pass a test in expertise, integrity, and experience. The AFM also supports the initiatives of the Stichting Financiële Dienstverlening, a foundation which established a dedicated test and training program for Independent Financial Advisers. However, training and certification of professionals will not be able to prevent malpractice, as much as a driving license is not a guarantee for safe driving.

A more powerful way to ensure that financial advice is in line with customer care regulations, is to add a quality filter to the advice process and the products delivered. Advice and products that do not meet the quality standards, will not be able to pass through the quality filter. An example of a built-in quality filter, that ensures compliance with internal and external regulations, has been presented in paragraph 5.3.1. That case study shows how a quality filter based on automated business rules, can ensure that investment advice and operations comply with customer care regulations. The quality filter supports complex real time decision making, taking into account high volumes of continuously changing market data.

Additionally, a certification of products offered can be added, allowing only those products to be advised, that deliver customer benefits against acceptable costs and risks.

Instead of supervising financial service providers through ex-post analysis of individual cases, the AFM could focus on supervising financial service providers by implementing

quality filters in such a way, that the quality of the advice is ensured. In this way, compliance to regulations is guaranteed, ex-ante.

Financial service providers can be stimulated to implement quality filters that ensure compliance through automated business rules, by certification of the advice processes. For example:

- A bronze certificate: quality filters available and ensured through “soft” coordinating mechanisms: training, procedures, four eyes principle.
- A silver certificate: quality filters available and implemented through automated business rules in standalone advice software.
- A gold certificate: quality filters available and implemented through automated business rules in an integrated enterprise wide information platform, supporting personal financial advice.
- A platinum certificate: quality filters available and implemented through automated business rules in an integrated enterprise wide information platform, supporting personal financial advice, online monitoring, alerts and continuous adjustments.

Implementation of automated business rules will require regulations to be unambiguous and precise, which is not the case with the open standards that characterize present legislation. However, many of the open standards have already crystallized. Regulations that are still open for interpretation require each financial service provider to define their own interpretation and show how this is captured in (automated) business rules.

Certification of (combinations of) financial products can be delivered by consumer organizations and comparison sites. The regulator can set the rules, the minimum criteria for certification, and stimulate parties to participate in product certification.

In conclusion, the second recommendation to the AFM is to gradually change emphasis from ex-post to ex-ante supervision. This ensures the quality of personal financial advice and products offered, through built-in quality filters in the advice process at financial service providers. Moreover, the AFM can promote the certification of personal financial advice processes and (combinations of) financial products.

7.3 RECOMMENDATIONS TO THE GOVERNMENT

The government is well aware of the macro and micro socio-economic effects of the financial crisis and is prepared to take all necessary action in order to prevent the financial and subsequent economic crisis to happen again.

Improve Customer Care Regulations

The Dutch customer care regulations are characterized by open standards, while the concretization is primarily left to self regulation. Without going overboard in overregulation, the government has to take action and specify norms more clearly than before. For the government, the time has passed to go along with public indignation on financial malpractices. It is expected to set the rules and to ensure that these are followed.

New regulations will be coordinated with European and global initiatives.

Urge Financial Service Providers to Help Customers Manage their Finances

The government can appeal to all financial service industry leaders, to support customers in managing their personal finances more effectively, in both the short and the long run. A good initiative, for example, is the CentiQ network (<http://www.wijzeringeldzaken.nl>), an initiative of the Ministry of Finance with the support of more than forty partners from the financial services industry.

Promote Personal Financial Management Education

More time and effort should be spent on educating even the youngest to learn how to manage money and financial risks. Dedicated and “cool” programs for elementary schools, high schools and adults should be developed. In 2010, for example, a special program was developed for children called “The week of money” (www.weekvanhetgeld.nl). However, a week is not enough. The government is encouraged to actively support the development of a continuous platform for education on personal financial management, supported by specialized institutions, such as Nibud, consumer organizations, the media, and the financial services sector (Van Lierop & Schuurmans, 2011; Schuurmans & Van Lierop, 2011).

Personalized Financial Information for Citizens

The Dutch regulator AFM requires financial service providers to deliver information on financial products that is abundantly clear (Kockelkoren, 2010). The government is the largest provider of financial services, providing social security and state pensions for all its citizens. However, the government has not been successful in informing citizens about

the financial benefits they can rely on, in cases of, amongst others, unemployment, disability, untimely death of a partner, and retirement (Nibud, 2009).

The government has a responsibility, while restructuring social security and other collective arrangements, to inform the public about the financial consequences.

The government has already implemented a portal for citizens to be able to view information and to obtain more detailed information. This portal can be used to present personalized content regarding financial information. Based on the personal financial data available at the pension register and the tax authority, citizens should be able to receive a personal or household statement on the financial consequences in the events of birth of children, disability, unemployment, death of partner, retirement, and in the case of an inheritance.

In this way, a Uniform Financial Overview (UFO, as derived from the Unified Pension Overview UPO) will be available for all citizens, delivering an aggregated view per household in a user friendly (graphical) manner. Recently, the Ministry of Finance launched the initiative to open seven Moneyshops in the large cities, for citizens to receive support in managing their finances. If the Moneyshops are supported by a personal financial portal on the internet, all citizens will be able to create an aggregated view on their finances and ask for (remote) support in the Moneyshops.

Required Budget

Many of the suggestions made here can be implemented without the availability of additional budget. However, the government should realize that if the public is not coherently and comprehensibly informed about the financial risks resulting from changes in social security, tax and legal reforms, many individuals will not take action before it is too late. Individuals that experience a serious drop in income, will become a burden to the government.

It would be an example of being penny wise and pound foolish, if the government would not invest in personalized financial information to the public. If the public is informed in time, appropriate decisions can be taken to prevent individuals from becoming financially dependent on the state.

7.4 CONCLUSIONS

This dissertation presents a new way of delivering personal financial advice, based on standardized plans for specific customer segments, in different life stages and life events. There seems to be something incompatible in delivering personal financial advice on the

basis of a standard because everybody is different and a standardized plan will never fit perfectly.

Even though everybody is unique, most people are happy driving a mass produced car. Especially, since customers can select brand, type, and model, including a list of options for motor, interior, and exterior. Although people are different in what they do with their money, the financial needs and goals are quite similar and require optimization across life stages. People need efficient financial vehicles to bring them safely and reliably from where they are, to where they want to go. Personalization will be available to adapt the standardized financial vehicles to personal preferences, for instance concerning their risk appetite.

It is suggested that financial service providers implement personal financial advice, to meet customer needs, regain trust, and to deliver an optimal set of financial products profitably. This can be delivered in compliance with internal and external regulations, supporting a lifelong relationship with customers, while beating competition.

The Dutch financial regulator AFM is advised to adapt some of the customer care regulations to facilitate the implementation of personal financial advice on the basis of standardized plans. Moreover, the AFM is suggested to gradually change from ex-post to ex ante supervision, ensuring the quality of advice delivered on the basis of certified advice processes and products.

Recommendations for the Dutch government include the step by step improvement of customer care regulations, the development and promotion of a continuous platform for education on personal financial management, while urging the captains of the financial services industry to help support customers to manage their personal finances effectively. The government, as a financial service provider of social security and state pensions, is advised to implement a platform for households, to receive an aggregated and personalized overview of their financial position, including the benefits and risks in case of unemployment, disability, untimely death, and retirement.

CHAPTER 8



SUMMARY AND CONCLUSION

SUMMARY

CONCLUSION

CONTRIBUTION TO THEORY

SUGGESTIONS FOR FURTHER STUDY

8. SUMMARY AND CONCLUSION

In this chapter, a summary is presented. The final conclusion is drawn after revisiting the central research question. The contribution of this study to the theory and models of personal financial advice is described and suggestions for further studies are made.

8.1 SUMMARY

Personal Financial Advice

Personal financial advice is defined as the continuous process of planning, executing, monitoring, and controlling income, expenses, assets, and liabilities, while managing financial risks, providing support for the changing goals, needs, and capabilities, of individuals and their household, in subsequent life stages.

Need to Change

The crisis that hit the financial services sector in 2008, exposed the already existing need for change in the way personal financial advice is delivered. The need for change in personal financial advice derives from the following stakeholders:

- **Customers** urgently need sound financial advice in order to manage increased personal financial risks. These risks result from serious cutbacks in state and corporate collective arrangements, amongst others, regarding pensions, disability, and unemployment. Modern lifestyle, characterized by job hopping, world travel, transient relationships, the need for child support, and sabbatical, increases the need for a sound financial plan even more.
- **The financial services sector** needs to regain trust from their customers, increase customer retention, and revenues. Simultaneously, financial service providers need to reduce operational costs, comply with customer care regulations, and meet fierce competition from new entrants.
- **Regulators** have set standards for customer care, but were not able to prevent the occurrence of a series of poor practices in personal financial advice. If poor practices continue, an erosion of public trust in the regulators will take place.
- **Society** suffers the consequences of the financial crisis as experienced in the evaporation of wealth, recession, unemployment, additional cut backs, and tax payments.

Problem Statement, Goal and Central Research Question

The problem statement is described as follows:

Continuation of poor practices in personal financial advice leads to financial distress for customers and a loss of trust in financial service providers as well as in regulators. This in turn may lead to instability of financial service providers and the financial services sector as a whole, while the government may not be able to bail out the financial sector again.

The goal of this study is to prevent such a grim outlook:

To provide policy makers and managers with a theoretically and empirically supported model of personal financial advice, preventing the continuation of poor practices in personal financial advice, which may lead to serious financial problems for customers, financial service providers, the financial services sector, and the government.

As a result, the central research question focuses on the development of a model on personal financial advice which meets the following standards:

How can personal financial advice be delivered in such a way that it matches the goals, needs, and financial capabilities of customers now and in the future, complies with customer care regulations, and meets the needs of financial service providers to retain customers and grow revenues profitably?

Research Methodology

From the range of research strategies available, action research and case studies have been selected to be most appropriate for answering the central research question. Action research is characterized by a collaborative partnership between practitioners and researchers, working in iterative steps of diagnosing, planning, taking action, and evaluating.

The case studies presented are selected from the practice as a consultant and as a researcher, and have resulted in a series of articles on multi-channel distribution, personal financial advice, and the implementation of fundamental changes in personal financial advice.

A multiple case study approach was selected in order to support the generalization of conclusions. Furthermore, axiology delivered the insight to include a value statement because the selection of the research subject, the research methods used, and the interpretation of results are influenced by values. This is especially relevant since moral dilemmas are at the heart of the advice process. The work and life of Desiderius Erasmus has been used to express the humanistic values, which form the background for the analysis delivered and the fundamental changes in personal financial advice.

In an evaluation of the research delivered, the limitations in terms of validity and reliability of the present study are discussed.

Diagnosis

The real-life practice of personal financial advice, as it is delivered by financial service providers today, is described for the top, middle, and lower customer segments (as measured in terms of income and wealth). The top and middle segments, which comprise only 10% of the total number of Dutch households, enjoy the privilege of being served by a personal financial adviser. Profitability in delivering financial advice is already under pressure in the top segment. Detailed analysis of the financial advice process for the middle segment shows that the efforts and costs associated with delivering a Personal Financial Plan, are not expected to be compensated by returns in the short or long term. Moreover, the abolition of commissions for complex financial products and the further reduction of margins as a result of fierce competition, will further reduce the profit contribution of financial advice. As a consequence, delivering a personal financial advice for the middle segment in the traditional manner is economically not a viable option for the future.

Lower segment customers, who account for 90% of Dutch households, receive financial assistance by product advisers, who are primarily sales-focused. As a result, customers end up with a wide range of products, which lack integration. The quality of the financial advice delivered is in most cases at an acceptable level. However, reports underline that there is still room for improvement, which will require a substantial effort for advisers, to become intrinsically motivated to put the client's interest first.

In the diagnosis of the financial products advised and delivered, some seem to have been designed to maximize the benefits for advisers and suppliers, leaving the costs and risks for the customers. Financial products need to balance the interests of the customer, adviser and supplier, regarding benefits, costs and risks.

The conclusion on the current practice of personal financial advice is that a fundamental change is required in the way personal financial advice is delivered, in order to:

- Support a growing number of clients in their need for sound financial advice.
- Ensure that the quality of advice meets internal and external regulations.
- Deliver products that balance the interests of customer, adviser, and supplier.
- Restore economic viability in delivering personal financial advice.

Theories and Models Based Action Planning

Following the action research spiral, the next step after diagnosis is action planning. The planning of action is supported by a normative framework of fundamental changes in personal financial advice, based on theories and models from several disciplines, includ-

ing business process redesign, customer behavior, behavioral finance, marketing, business ethics, and information technology. These theories and models have been applied to personal financial advice.

Business process redesign supports the view that a fundamental change in the delivery of personal financial advice can be made by industrializing the financial advice process, in much the same way that Henry Ford altered the production of automobiles, delivering standardized personal financial advice for a specific customer segment, in a specific life stage and life event. For example, a standardized plan for a couple with double income and no kids, who want to buy their first home.

Trends in consumer behavior suggest the mix of internet, call center and face-to-face support, to facilitate the self directed customer through assisted self-service. Through these channels, customers will be able to select the most suitable standardized advice and adjust the plan according to their preferences.

Behavioral finance has delivered the insight that customers do not always act rationally, as was the presumption of utility theory. Several concepts based on prospect theory, describing the decision making process, have to be taken into account, including loss aversion, asymmetric risk appetite, a preference for the middle of the road, and financial illiteracy.

Marketing delivered a framework that will allow financial service providers to develop a lifelong relationship with clients, while delivering a host of packaged products and services, to meet the changing customer demands in subsequent life stages. Examples of packaged products that can deliver synergies for customers, advisers and suppliers, are described in the all-in-one cash account, the all-in-one pension account, the all-in-one investment account, the all-in-one insurance account, and the all-in-one business account. In this framework, the support of modern information and communication technology is essential, to continuously match combinations of products and services with changing customer needs. The technology required is known as a virtual guardian angel.

Business ethics delivered several theories and models that are relevant for personal financial advice, including the contract view, the due care theory and the social cost view. Moreover, the concept of libertarian paternalism has been applied successfully in the distribution of financial services. Furthermore, a model has been presented of the seven determinants of trust, which can support financial service providers in regaining public trust. Important developments in the discipline of information technology, relevant for the redesign of personal financial advice, include customer centric design and business intelligence. Customer centric design encompasses all techniques that makes an application easy to use, cool and fun. Business intelligence will be able to ensure that personal financial advice is delivered according to internal and external regulations.

On the basis of above insights a normative framework of fundamental changes in personal financial advice is constructed.

Case Studies

The normative framework was put to the test in several case studies.

- **Pension Planners:** The studies on Pension planners describe the need to capture information from multiple sources and combine that information into an integrated and clear picture for one household. Many steps in that direction have already been made, including a nationwide Pension register, however, essential steps are missing. As a result many individuals are still uncertain about their expected retirement benefits and alternative ways to improve their long term perspective.
- **Investment Planners:** Case studies on investment advice show that it is technically, practically, and economically feasible to implement a virtual guardian angel, to support wealth management. This is effectively realized through self-service channels with remote support by advisers. An in-depth study has been presented on the first steps in the investment process, which have a major effect on the investment outcome: Determining risk profiles and the strategic asset allocation. Concrete recommendations have been made for improvements in the determination of risk profiles and the use of risk profiles in strategic asset allocation.
- **Personal Financial Advice:** Case studies on personal financial advice support the view, that it is technically possible, attractive for customers, and profitable for financial service providers, to deliver personal financial advice through assisted self-service. However, it must be concluded that these initiatives have not yet been implemented on a large scale.

In the evaluation of the case studies it became clear that the examples of the pension planner and investment planner as implemented in the US, already cover many of the fundamental changes in personal financial advice, as presented in the normative framework. These cases have been implemented successfully in the US. However, for implementation in the Dutch situation, additional functionality and advice across all product domains is required. The case studies on personal financial advice at the insurance company and the bank, deliver strong support for the statement that it is possible to deliver personal financial advice in line with the normative framework: customer friendly, profitably, and in full compliance with internal and external regulations. However, these case studies have not yet been implemented in real-life. And so, the question arises why not?

Implementation

Implementing fundamental change in the way personal financial advice is delivered has major implications for all echelons and departments of a financial service provider. The implementation of personal financial advice is expected to deliver optimal results in a customer centric organization, where the strategy, organization structure, business processes, information architecture, people, rewards, and corporate culture, are focused on delivering customer centric solutions profitably.

The implementation of personal financial advice in a product centric organization will be confronted by a mix of “bounded rationality” and resistance to change. Employees make rational decisions within the organizational boundaries of their job description and the boundaries of available information and time.

Two approaches for implementing transformation have been presented, the evolutionary and the revolutionary approach.

Firstly, the evolutionary approach can be successful in case the need for change is not yet apparent and a set of initiatives can be launched, without a major investment, delivering immediate benefits. New initiatives can be built on this success until the “tipping point” is reached, where the momentum of change becomes unstoppable. The success of the evolutionary approach however, is dependent on favorable conditions. A product centric organization is not considered to be a favorable condition for implementing personal financial advice. As a consequence, the chances for implementing personal financial advice successfully, through an evolutionary approach, are limited, since many financial service providers are predominantly product centric.

Secondly, the revolutionary approach can only be applied, if top management acknowledges the need and urgency of change. If so, multiple initiatives will be implemented in parallel. All employees will be mobilized to support the transformation program, while the business as usual needs to be continued. Those not willing or able to make the transition will be asked to depart. The organization however, aims to motivate as many employees as possible to support the transformation. A major change program will drive and accelerate the transformation process.

Considering the investments, resistance, risks and uncertainty, combined with the irrevocable nature of a revolutionary approach, top management will only decide on a revolutionary approach in case of last resort. However, cases of bankruptcy have learned that waiting too long with a revolutionary approach, can be fatal.

A change path is suggested combining the evolutionary and revolutionary approach. The starting point is the evolutionary approach, with a small number of initiatives, limited effort, resources, and risks, in order to prove the success of personal financial advice in practice. At the same time, a high level of management commitment is required, as is the

case in the revolutionary approach, to ensure successful initiatives can grow and reach the tipping point. In this manner a transformation towards a customer centric organization is expected to be successful.

Recommendations

The recommendations focus on the financial service providers, the regulators, and the government.

1. The main recommendations to financial service providers are:
 - 1.1. Implement personal financial advice as presented here, in order to (1) meet internal and external regulations securing the quality of advice, (2) support a growing number of customers in need of sound financial advice, (3) match customer goals, needs, and capabilities, now and for the future, (4) deliver packaged solutions that optimize associated benefits, costs, and risks, (5) balance the interests of the customer, the adviser and the product provider, (6) allow customers to be in control of their own finances, (7) regain public trust in financial service providers, (8) deliver personal financial advice in a profitable way, (9) grow revenue by optimized cross selling, (10) reduce costs-to-serve per customer, (11) support a lifelong mutually beneficial relationship with the customer, (12) improve risk management for the customer and the financial service provider, (13) prevent poor advice practices that harm the image of the financial sector, (14) attract new customers, and (15) beat competition.
 - 1.2. Select a change path for the transformation towards a customer centric organization that combines the advantages of an evolutionary approach, characterized by small steps, limited resources and risks, short term implementation, and immediate results, with the power and commitment of a revolutionary approach, to ensure that successful initiatives are able to grow, foster and eventually change the way of doing business.
2. The main recommendations to the regulators are:
 - 2.1. The first recommendation to the Dutch Regulatory Authority on Customer Care, Autoriteit Financiële Markten (AFM), is to adapt customer care regulations in such a way, that personal financial advice as presented in this dissertation, is allowed. For instance, the AFM should change standards in such a way, that a person-to-person meeting between customer and adviser is not implied or required, as long as it is the only way to deliver good or excellent financial advice. Personal financial advice delivered through assisted self-service, based on standardized plans for specific customer segments, life stages, and life events, can

result in as good or even better advice, compared to advice delivered in the traditional manner, through personal client-adviser meetings.

- 2.2. The AFM is to gradually change emphasis from ex-post to ex-ante supervision, ensuring the quality of financial advice processes and products by quality filters built into the advice processes at financial service providers. The AFM can promote the use of automated business rules, ensuring the quality of advice through a certification program, with well defined levels of certification. Moreover, the AFM can initiate and facilitate the certification of (combinations of) financial products, with respect to the benefits, costs, and risks for customers.
3. The main recommendations to the government are:
 - 3.1. The government is suggested to support improvement of personal financial advice, by establishing clear norms and urging financial service providers to assume their social responsibility, helping customers to manage their personal finances.
 - 3.2. The government is advised to actively support the development of a continuous platform for education on personal financial management for citizens in all age categories, starting with children.
 - 3.3. The government as a financial service provider, delivering social security and state pensions to all citizens, should invest in providing personalized yearly statements to inform the public about the financial benefits to which they are entitled, through a Unified Financial Overview. The government should be aware, that if the public is not informed accurately, in time, in a coherent and comprehensible way about the financial risks that result from changes in social security, tax, and legal reforms, individuals will not take action in time. In case the public is well informed, appropriate and timely decisions can be made, in order to prevent individuals to become financially dependent on the state.

8.2 CONCLUSION

To support the formulation of the final conclusion in this dissertation, the central research question is revisited. The central research question is described as follows:

How can personal financial advice be delivered in such a way that it matches the goals, needs, and financial capabilities of customers now and in the future, complies

with customer care regulations, and meets the needs of financial service providers to retain customers and grow revenues profitably?

Research into the practice of personal financial advice, has shown, that there is room for improvement in the quality of advice delivered, to comply with customer care and internal regulations. Moreover, the delivery of personal financial advice for the lower and middle customer segments, is economically not viable and therefore does not meet the needs of financial service providers to grow revenues profitably.

On the basis of available literature and reports, a normative framework was constructed how, in theory, personal financial advice can be delivered in such a way that it matches the goals, needs, and financial capabilities of customers now and in the future. Fundamental changes in the practice of personal financial advice are presented.

A series of case studies, have concluded that personal financial advice, supported by the innovative concepts presented, can be delivered in a customer centric, compliant, and profitable way. However, these concepts have not yet been implemented on a large scale.

A further study concentrated on the reasons why the new concepts presented here have not been implemented, uncovering “bounded rationality” and resistance to change as important “show stoppers” in the predominantly product centric organizations of financial service providers. As a result, the implementation of personal financial advice is not expected to be successful, without the organization of a financial service provider transforming into a truly customer centric organization.

This transformation will need the support and commitment of top management, the regulators, and the government. A change in strategy and/or fee structure is not enough.

Thus, in conclusion, based on the research delivered, the answer to the central research question is:

The management of financial service providers, the regulators, and the government should collaborate to transform the organization of financial service providers into truly customer centric organizations, supporting a growing number of customers in managing their personal finances effectively, in a balance of interests, through the use of virtual guardian angels and standardized financial advice, resulting in lifelong mutual beneficial relationships between customers and financial service providers.

It is of the utmost importance for the customers, the financial service providers, the regulators, and government, to prevent another financial crisis from happening.

The public trust in the financial services sector needs to be restored.

8.3 CONTRIBUTION TO THEORY

In Chapter 1, a model of personal financial advice has been depicted in Figure 1.1., and a definition of personal financial advice was delivered. This study contributes to theory and models of personal financial advice. Fundamental changes in personal financial advice are based on the analysis of personal financial advice in practice and are supported by theories and models from several disciplines. As a result a normative framework of fundamental changes in personal financial advice was developed and this framework has been put to the test in the case studies.

Fundamental changes are required because the assumptions underlying the traditional way of delivering financial services and personal financial advice, do not hold true anymore and need to be revised. Bodie and Prast (2007) already mentioned the need for a paradigm shift in personal financial planning.

In Table 8.1 the change in assumptions is captured.

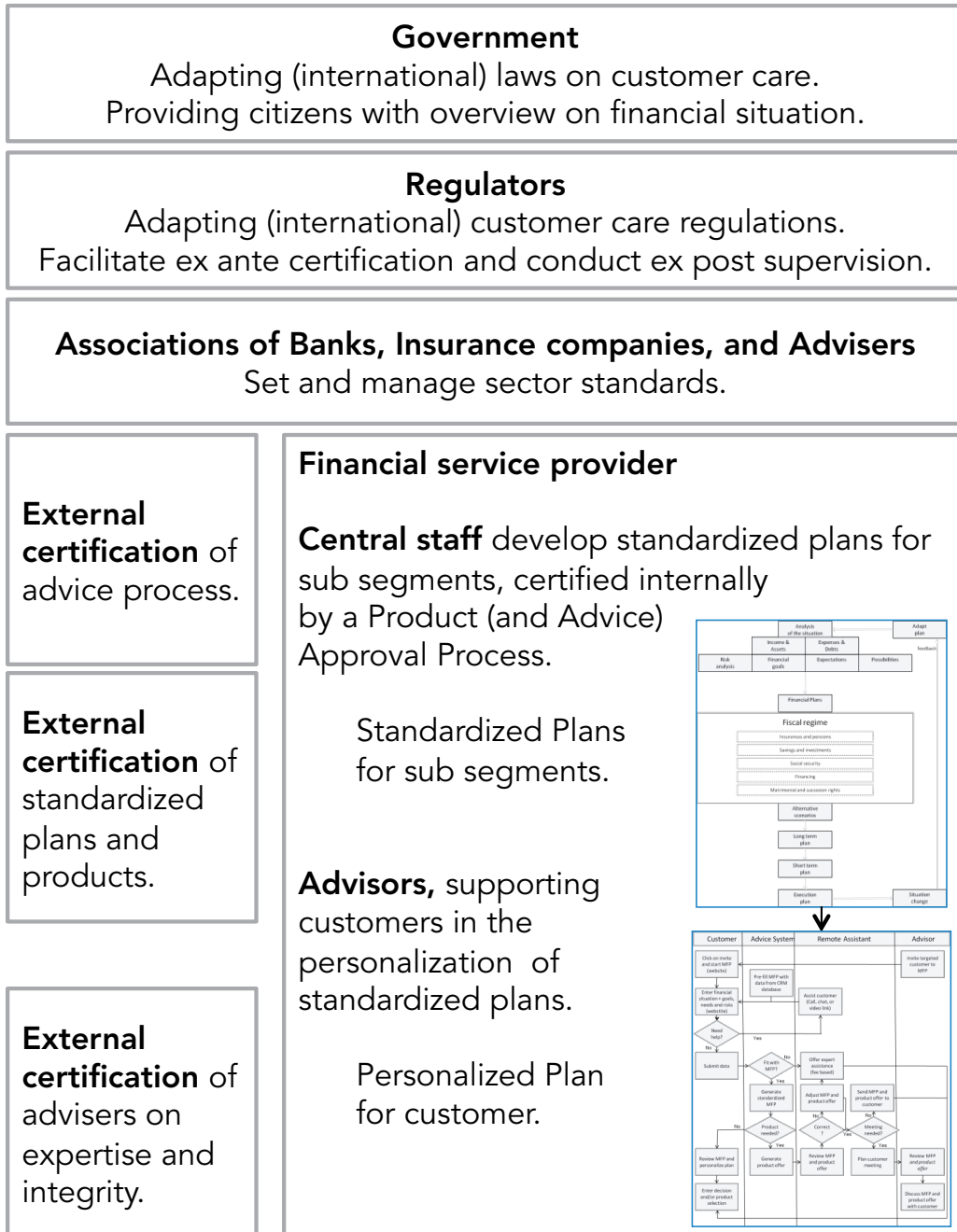
Based on the new assumptions, a model for personal financial advice has been derived. In Figure 8.1 the personal financial advice process as depicted by Van den Berg & De Looze (2007), is embedded in controls to secure the quality of the advice process internally, via standardized plans and the approval process, and externally, via norms set by government, regulators, and the sector associations.

The quality of the personal financial advice delivered is assured ex-ante, through external certification of advisers, personal advice processes, standardized plans, and (combinations) of financial products. Continuous improvement of personal financial advice requires the collaboration of all parties involved.

Assumptions Supporting the Traditional Way of Delivering Financial Services and Personal Financial Advice.	Assumptions Supporting the New Way of Delivering Financial Services and Personal Financial Advice.
Welfare state.	Individualization.
Life time employment.	Change of jobs every 7 years on average.
Traditional lifestyle.	Modern lifestyle.
Retiring at 65 or earlier.	Retiring at 66 or later.
Financial planning, primarily for the wealthy.	Financial planning, required for all.
Financial planning is a discrete process.	Financial planning is a continuous process, including monitoring and alerts.
The customer is financially illiterate and not interested in finances.	The customer is responsible and wants to be in control.
Customers prefer face-to-face contact with an adviser.	Customers prefer the flexibility of assisted self-service.
Customer decisions are driven by utility.	Customer decisions are driven by experienced utility.
All customers are unique.	Customers in similar segments, life stages and life events, have corresponding financial needs and goals.
A personal financial plan must be made-to-measure, to make sure it is best suited.	Personalization on the basis of a standardized financial plan delivers as good or better results.
The customer risk profile is determined in a personal meeting between customer and adviser.	The customer risk profile is decided upon by the customer on the basis of an objective advice by the adviser and the determination of risk preference and loss aversion.
The adviser is an expert in all aspects of financial planning, including tax, social security, investments, pension plans, mortgages, estate planning, and others.	The adviser is a coach in the exploration and decision making process of the client, by showing the benefits, costs, and risks of alternative scenarios.
Financial service providers add value by delivering products.	Financial service providers add value by delivering combinations of products that match customer needs in subsequent life stages.
Financial products deliver according to expectations.	There are risks and costs involved in every financial product, that have to be presented clearly and taken into account.
The margin or commission on products can compensate for the costs of advice.	Commissions on complex financial products are abolished, while margins and/or fees require the most efficient way in delivering personal financial advice.
A Product Approval Process certifies a good balance in benefits, costs and risks for both financial service provider and customer.	An external certification of (a combination of) products on the benefits, costs and risks for customers is preferred.
An ex-post supervision by regulators is effective.	Ex-ante control by regulators is required to prevent poor advice practices to continue.

Table 8.1: Changes in Assumptions supporting Financial Services Delivery.

Figure 8.1: Personal Financial Advice in Context



8.4 SUGGESTIONS FOR FURTHER STUDY

The financial services sector is at a turning point. The conclusions and recommendations delivered here describe a direction, which will have a major impact on all parties concerned. In the final stage of this study, a series of interviews with representatives from the financial services industry, the government, regulators, consumer organizations, and academics have taken place to evaluate the conclusions and recommendations. These interviews were conducted with representatives of ABN AMRO, ABP, AEGON, AFM, Besparingsplanner, Consumentenbond, ING, MnServices, Nationale Nederlanden, Ministerie van Financiën, Nibud, NVB, Rabobank, Sociaal Cultureel Planbureau, Stichting Financiële Dienstverlening, Univé, Vereniging Eigen Huis, Vereniging Federatie Financiële Planners, Verbond van Verzekeraars, and the Wetenschappelijke Raad voor het Regeringsbeleid. Internationally, the concepts that are presented here have been discussed with representatives of Barclays (UK and Singapore), BB&T (US), Discover Bank (US), Generali (B), HSBC (US and UK), RBS (UK), and Westpac (Australia). The reactions were positive and delivered additional insights and arguments supporting the normative framework. Consequently, researchers and practitioners are challenged to contribute to further study. Amongst others, these are important domains for further study:

- Transforming financial service providers into customer centric organizations.
- Defining financial plans for dedicated segments, life stages, and events.
- Develop virtual guardian angels, supporting personal financial advice.
- Study of the changes required in customer care rules and regulations.
- Research on certification of personal financial advice and financial products.
- Feasibility study on the delivery of a Uniform Financial Overview.
- Study on the international applicability of conclusions and recommendations.



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APPENDIX A: PERSONAL FINANCIAL ADVICE

APPENDIX B: SPECIFICATION PFP/MFP

APPENDIX C: SPECIFICATION RISK PROFILE STUDY

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APPENDIX A:

PERSONAL FINANCIAL ADVICE

In this appendix the various aspects of personal financial advice will be elaborated upon, as presented in professional literature.

CUSTOMER PROFILE

Personal financial advice focuses on balancing income, expenses, assets, and liabilities over time. To do that, a clear view on the customer profile is required, including:

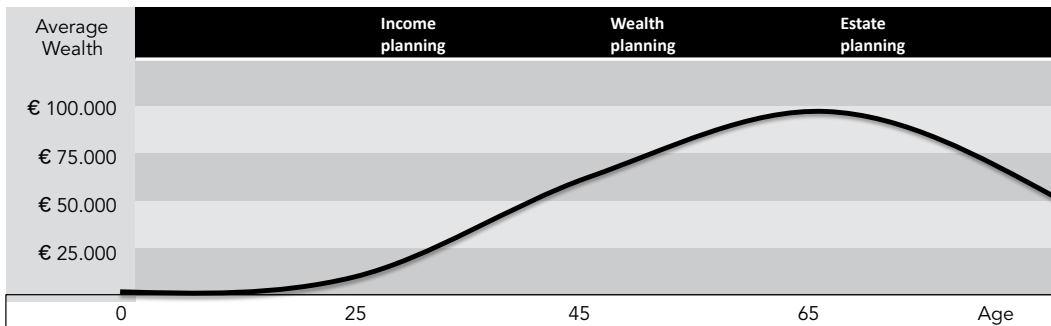
- Present and expected income, expenses, assets, and liabilities.
- Goals in life of customer and family.
- Financial goals, expectations, and possibilities.
- Financial risks, for instance resulting from unemployment and disability.
- Customer's risk profile.
- Current bank products as well as insurance and pension policies.

SUPPORT THROUGH LIFE STAGES AND LIFE EVENTS

In theory, personal financial advice will support customers through the various stages in life and in these life stages the main focus will shift (see Figure A.1).

- In the first stage, the main focus is on balancing income and expenses
- In the second stage, depending on life events, attention is given to the accumulation of wealth, to be able to enjoy retirement
- During the third stage, estate planning becomes the center of attention, transferring wealth to future generations.

Figure A.1: Support across Life Stages
according to Van den Berg & Looze, 2007



Major life events such as the birth of a child, education, a first job, job change, first time home ownership, moving to another home, marriage, divorce, retirement, and estate planning, will require extra attention.

SCENARIOS

On the basis of the information on the present situation, goals, and capabilities, alternative scenarios can be set up to include:

- Current scenario (no changes).
- Attaining prioritized goal(s).
- What if scenarios for the major financial risks: Disability, Unemployment, Early Death and Longevity.

PRODUCTS

To attain certain goals and manage financial risks, alternative financial products are available, including:

- banking products: savings, loans, mortgages, investment products, leasing.
- insurance products: life and general insurances.
- pension: state, collective, and individual pension plans.

In selecting relevant additional products several state and collective arrangements must be taken into account that help attain goals and/or manage risks, for instance social security and student grants ("studiefinanciering") as well as facilities that provide fiscal benefits ("levenslooptegeling", "bedrijfssparen" and "banksparen"). A combination of

products may well deliver the optimal result in attaining the goals, managing the risks, and being flexible in order to adapt to expected or unexpected future events.

QUANTITATIVE ANALYSIS

In the quantitative analysis the financial consequences of alternative scenarios and additional products are determined on income, expenses, assets, and liabilities. The consumptive net income (net income -/- fixed expenses) and the net assets (assets -/- liabilities) are presented over the relevant period of time (in many cases, till after retirement).

In evaluating the results, alternatives may be discussed:

- Rescheduling a goal in time can have major effects on the scenarios.
- The financial consequences of major risks may be covered through insurance.

ASSUMPTIONS

In calculating the financial consequences of alternative scenarios a long list of assumptions needs to be considered, including the development of external factors such as:

- Interest rates, inflation, and exchange rates.
- Financial markets for investment products.
- House prices.
- Industry specific collective agreements between employers and unions.
- Social security premiums and coverage.
- Tax reforms, for instance regarding deduction of mortgage interest.
- Legal reforms, for instance regarding the law governing dismissal.
- Economic developments, globally, per region, and per industry.

In most cases, because there is a high level of uncertainty involved, the general assumption is *ceteris paribus*. Thus, the quantitative analysis only presents a snapshot in time and an indication for the future. For specific scenarios a "what if analysis" can be made for instance, to show the value at risk if the stock markets crash.

Even if there are no changes in the customer profile and situation, the financial plan needs to be updated on a regular basis to take into account the changes that have taken place in the variables underlying the plan.

FINANCIAL ADVISER

To be able to support the customer in personal financial advice, a financial adviser needs to know about a wide range of domains. In each of those domains, there are experts with in-depth knowledge, for instance in investments, pensions, and estate planning. The personal financial adviser cannot possibly be an expert in all domains.

The personal financial adviser is often compared with a general practitioner: a central role in the relationship with customers on all aspects of their financial health and a gate keeper to a range of specialists. Just like a general practitioner, certification is required before starting practice and a lifelong education program is mandatory in order to keep up with the constant changes in the profession.

EXPERTS

In every domain of personal financial advice, experts are available who have developed a deep understanding and specific solutions for certain issues, for instance:

- Financial life planning (Kinder & Galvan, 2006).
- Marital conditions (Kraan & Sjerps, 2005).
- Divorce (Mostermans, 2006).
- Home ownership (Van den Berg, Kock & Bartels, 2004).
- Social security and financial planning (Verhoef, 2006).
- Fiscal and social aspects of cross border employment (Douwen, Essers, Houwerzijl & Smits, 2006).
- Investment planning (Ammeraal & Heezen, 2006).
- Estate planning (Meyer, 2006).
- The legal and tax implications of entrepreneurship (Hoogwout, 2004).
- The fiscal perspective for the CEO and main stockholder; (Heithuis, 2003) .
- Succession in family business (Hoogwout, 2006).

FINANCIAL ADVICE DOCUMENT

Personal financial advice will result in a paper document, presented to the customer. The document, including the customer profile, the scenarios, the products offered, the risk analysis, the calculations, the underlying assumptions, argumentation of the (expert) advisers, product information, and the customer's decision has to be filed for future reference.

MONITORING AND CONTROL

The minute the advice is delivered it can already be outdated because of changes in the financial markets or in customer preferences. Over a longer period of time, it is certain that changes will take place that have a major impact on the personal financial advice delivered. Customer and adviser should discuss how frequent and in which way monitoring and control will take place.

CONCLUSION

Personal financial advice is defined as the continuous process of planning, executing, monitoring, and controlling income, expenses, assets, and liabilities, while managing financial risks, providing support for the changing goals, needs, and capabilities, of individuals and their household, in subsequent life stages.

It is a complex process, which demands a broad knowledge and experience, input from experts in various domains, social and presentation skills, accuracy, integrity, and commitment.

APPENDIX B: SPECIFICATION PFP/MFP

In this appendix, research specifications are given on the analysis of the Personal Financial Plan and the development of a Modular Financial Plan, as delivered at a bank.

CHECKLIST PERSONAL FINANCIAL PLAN

The banks qualitative requirements are reflected by the following checklist, which guides the adviser through a process workflow. The adviser is obliged to complete each activity on the checklist each time a PFP is delivered. The required activities included in the checklist are the following:

1. Compose an interview report of the initial customer meeting and save the document electronically at a designated place.
2. The data should be entered in the OFP information system in accordance with the manual.
3. Check the financial risks by executing and printing the appropriate scenarios. (decease of customer and disability are obligatory)
4. Optional: Execute the disability scenario making specific assumptions.
5. The advice delivered should be correct.
6. The PFP advice document should be delivered in the correct format.
7. The advice should take customers wishes and goals into account.
8. Product offers should be included with a minimum of two offers per PFP.
9. Do the product offers fully cover the financial needs identified? If not, proceed with step 10.
10. Explicit notice should be made in case the product offers do not fully cover the financial needs identified.
11. A notice in the calendar should be made to follow-up the product offers.
12. The advice should be well founded, to enable reconstruction of the facts and events that have led to the advice in the future.
13. The complete PFP should be submitted to the e-archive.
14. Compose an interview report of the second customer meeting.
15. Does the customer take action according to the advice? If not, proceed with step 16.
16. Explicit notice should be made of the reason the customer deviates from the advice.

17. Data should be entered in the Customer Relationship Management system.
18. Digital copy of the complete PFP should be saved at a designated place.

INTERVIEWS WITH ADVISERS

The interviews among advisers were performed in accordance with the format included in this appendix. The interview questions were posed in Dutch, as the research was performed among employees who were native Dutch speakers.

The interviews included 7 advisers, at 6 geographically dispersed local subsidiaries of the bank in the Netherlands. The advisers were asked about positive issues, problematic areas, and improvements related to the mass affluent Personal Financial Plan (PFP). Furthermore, the advisers were asked to describe the process of composing a PFP and to verify a documentation based PFP composition process overview. Finally, literature based improvements were discussed.

Interview Format – Dutch

0. Which tasks in the PFP process are delivered satisfactorily? What is going well?
 1. Describe the PFP process as delivered in practice.
 2. What can be improved? What are the bottlenecks in the process?
 3. What suggestions do you have for improvement?

Standards Regarding PFP

1. Quality standards regarding PFP:
 - a. What are the criteria to propose a PFP to a client?
 - b. What are the PFP quality criteria of the bank?
 - c. What are the PFP quality criteria that you use?
 - d. What are the PFP quality criteria demanded by the client?
 - i. Is this in agreement with the bank's criteria?
 - ii. Is customer satisfaction measured regarding PFP?
2. Quantitative standards regarding PFP:
 - a. How many times do you propose a PFP to a client?
 - b. How many times are you requested by a client to deliver a PFP?
 - c. How much time does it take to deliver a PFP?
 - i. Specify per activity in the flowchart.
 - ii. What is taking the most time in delivering a PFP?
 - d. How many proposals do you deliver per PFP?

- e. How many product offers resulting from a PFP are accepted by the client?

PFP Process

1. How do you contact a client to propose delivering a PFP? (Telephone, mail, etc.)
2. How do clients contact you regarding a PFP? (Telephone, mail, etc.)
 - a. Do you send the PFP questionnaire to the client?
 - b. How do you send the PFP questionnaire to the client? (Paper mail or email?)
 - c. How long does it take before you receive the filled in questionnaire?
 - d. How many times do the customers include the required attachments and specifications?
3. When do you set up the first meeting with the client? Is the follow up meeting planned as well?
4. When do you use the OFP system?
5. When do you use the MS Word PFP template?
6. When do you send the PFP to the client?
7. When do you plan the follow up meeting? Do you contact the client yourself?
8. Who is supporting you in your work on a PFP? Back-office/ secretarial support?
9. What are the most common points of attention in delivering a PFP?
10. Do you register that a PFP is delivered? If so, how?
11. Is your way of working in compliance with the PFP flowchart?
 - a. What is the working time in delivering a PFP?
 - b. What is the total processing time in delivering a PFP?

Check each step of the PFP Flowchart.

PFP Control

1. How do you know a PFP is already prepared for a client?
2. Do you periodically contact clients to update their PFP?
 - a. If so, how? (Telephone, mail, etc.)
 - b. If so, how frequently?
3. Do clients contact you to update their PFP?
 - a. If so, how? (Telephone, mail, etc.)
 - b. If so, how frequently?
4. What is the general approach in updating the PFP?
5. What are the most common points of attention in updating a PFP?
 - a. What is the working time in updating a PFP?
 - b. What is the total processing time in updating a PFP?

PERSONAL FINANCIAL PLANNING INFORMATION SYSTEMS

A functional scan was performed to determine which information systems are used by customers and advisers during PFP composition and maintenance. The functional scan resulted in a brief description of these information systems. In May 2009, six information systems were available for support of the PFP composition and maintenance processes: Customer Relationship Management (CRM) System, Online Financial Planning (OFP) system, EASI Dashboard, PFP Microsoft Word template, E-Archive. Using product-offer software, the adviser composes several product offers depending on the analysis of customer data. The OFP and PFP Microsoft Word template are software applications that exclusively support the bank's PFP processes. None of these systems are currently integrated. Consequently, most (customer) data need to be entered manually by the adviser each time he or she uses a different tool. When a PFP is updated, only some data needs to be entered or adjusted.

CRM System: The bank's Customer Relationship Management (CRM) System is not exclusive to PFP, it is used by all bank employees who deal with customers. Therefore, basic customer details are usually already available in the CRM system when a PFP is composed. The system contains customer data, including name and address details. Moreover, data related to customer contracts and product details are accessible through the CRM system. The CRM system is accessible on the bank's intranet.

OFP System: Online Financial Planning (OFP) system is an online software application designed to exclusively facilitate personal financial planning. Advisers are the users of the application. OFP is hosted by its software supplier and is not integrated with the bank's CRM system. Consequently, all customer data need to be entered manually when composing a first PFP for each customer. The application includes a personal financial overview, scenarios, and calculations.

PFP MS Word Template: The Microsoft Word PFP template is used by the advisers to compose a PFP advice document. The bank's professionals utilize the results from the OFP system to compose the advice. The template is available on the bank's intranet.

EASI Registration and Dashboard: The applications EASI Registration and Dashboard are business intelligence tools that enable the bank to keep track of sales. Several performance indicators have been defined to reflect the adviser's sales performance. The bank's sales management has defined targets for each performance indicator. The targets per performance indicator differ quarterly corresponding to the seasonal pattern.

The advisers are obliged to enter each product they sell into the EASI Registration system. The EASI Registration system is not integrated with the bank's CRM system. Consequently, the advisers need to enter all customer details manually. The composition of a Personal Financial Plan is considered a sale within EASI Registration; therefore, each completed Personal Financial Plan is registered by the adviser. Moreover, the adviser is obliged to compose a minimum of two product offerings with each completed Personal Financial Plan. These product offerings are registered in EASI as well.

The EASI Dashboard is a report reflecting all data entered in EASI Registration. The report shows the sales entered for each performance indicator and the corresponding target. The advisers may access the report to view their team performance. The EASI Dashboard application is hosted by an external supplier. Due to the bank's security policy, customer data are not included in the EASI Dashboard report. Therefore, only the number of composed Personal Financial Plans and related product offerings are visible, customer details are omitted.

Product-offer systems: Depending on the result of the analysis, the customer receives one or more product offers. These product offers are composed in a separate information system.

E-Archive: All completed PFPs are stored in an electronic archive during the entire customer life cycle (50 years). The E-Archive has been introduced in April 2009. Previously, the PFPs were stored by the bank's advisers in their own personal directory.

OFP DATA ANALYSIS

To gain insight into the lead time of PFP composition, data from the Online Financial Planning (OFP) system were acquired and analyzed. The dataset included customer data and their financial planning scenarios. The available customer data had a date of entry from the 2nd of January 2008 to the 29th of April 2009. The data were available in a XML file. Consequently, the data were verified by the bank's Customer Intelligence Department. The Customer Intelligence Department found that the bank's customer number was not consistently entered by the advisers. The inconsistent entry of the customer number was caused by the fact that entry of the data field was not compulsory. From March 2009 the field was made compulsory; however, a verification of the customer number by a business rule remained absent. From the 19th of March 2009 the customer number was entered by all advisers; however, some advisers entered a fictive customer number such as 1 or 12345678.

The dataset verified by the bank's Customer Intelligence Department was linked via unique customer number with the additional data. To ensure the inclusion of genuine clients, only data which included the customer number were incorporated in the analysis. Therefore, client data entered from the 19th of March 2009 up to the 29th of April 2009 and update before the 13th of May 2009 were included in the analysis; consequently, 1606 customers were included.

The lead time in hours of customer data entry has been calculated by subtracting the entry date from the update date. Unfortunately, the system does not require the user to save customer data or scenarios. Therefore, the lead time data are not very reliable. Moreover, the customer's age was calculated at the time of data entry by subtracting the customer's date of birth from the date the customer data were entered. Finally, the total lead time was determined by comparing the lead time of customer data entry and the final scenario update.

SURVEY FORMAT

The survey among advisers was performed according to the format included here. The survey questions were posed in Dutch as the research was performed among employees who for the most part were native Dutch speakers.

Summary of Survey Questions:

General information

- 1.1 Working experience as an adviser - Number of years
- 1.2 Certified adviser – Yes/No
- 1.3 PFPs made – Yes/No

PFP composition

- 2.1 Client meetings per PFP – Number of meetings
- 2.2 Time needed to conduct meetings – Time in hours
- 2.3 a. PFP composition excluding customer meetings takes approximately 5 hours – Yes/No
 - b. If No – Specify the time in hours
- 2.4 New advice document used – Yes/No

New automated PFP advice document

- 3.1 Time needed to compose PFP with new advice document – Time in hours

- 3.2 Time needed to compose the advice document – Time in hours
- 3.3 a. Clear layout – Disagree-Agree (4 point scale)
 b. Professional layout – Disagree-Agree (4 point scale)
 c. User friendly advice document – Disagree-Agree (4 point scale)
 d. Satisfied with advice document – Disagree-Agree (4 point scale)
 e. If you disagree – Explain why?
- 3.4 PFP sent to e-archive before registration in EASI – Never/Sometimes/Usually/Always

Improvement of the process of PFP provision

- 4.1 What improvements do you suggest? Explain what and how?
- 4.2 E-mail

SURVEY RESULTS

Note: not all survey results have been made available for publication.

Moderating Variables: The moderating variables included in the survey were working experience and certification. The mean working experience of the advisers included in the analysis of the survey results was 5.1 years.

Sixty-five (89%) of the advisers who were included in the analysis held a mass affluent banking certificate, while eight (11 %) of the advisers did not hold the certificate. All advisers had made PFPs for their customers in the past. Consequently, most respondents included in the analysis are regarded experienced, having sufficient expertise to compose PFPs.

Dependent Variables: The dependent variables are the data regarding processing times and customer meetings; descriptive statistics of these data is presented in Table 1. The survey also included several constructs to measure the adviser satisfaction with the new advice document integrated in the OFP system. The descriptive statistics of these constructs are presented in Table 2.

Table 1. Descriptive Statistics Survey - Values per PFP

	N	Minimum	Maximum	Mean	Std. Deviation
2.1 # Client meetings	73		4	2,11	,488
2.2 Duration of meetings	73	,00	12,00	3,9247	2,14358
2.3 Old advice document	73	3,00	10,00	6,1027	1,52288
3.1 New advice document	73	1,00	9,00	4,7534	1,84678
5.1 Time saving	73	-3,00	6,50	1,3493	1,51310

Table 2. Descriptive Statistics of the Constructs Reflecting the Adviser Satisfaction with New Advice Document Integrated in the OFF-system.

	N	Minimum	Maximum	Mean	Std. Deviation
3.3a clear layout	73	1,00	4,00	2,7808	,88579
3.3b Professional layout	73	1,00	4,00	2,8904	,89072
3.3c User friendly	73	1,00	4,00	2,2055	,88127
3.3d Satisfaction	73	1,00	4,00	2,3425	,76774
3.3 Total	73	4,00	16,00	10,2192	2,84920

4.1 Proposed PFP Improvements

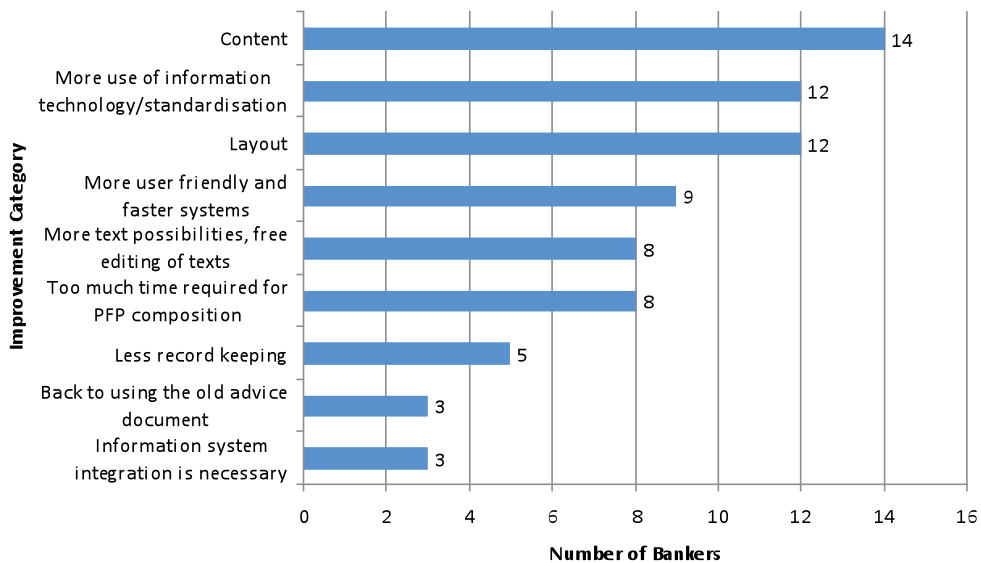


Figure 1. Improvements Proposed by Advisers.

APPENDIX C:

SPECIFICATION RISK PROFILE STUDY

In this appendix, background information on participants, design and measurement is given on the risk profiles study.

Participants

For this research, 2005 customers of the bank were asked to participate, and 136 did do so. All customers were investors in financial products other than saving. The financial product they purchased from the bank involved some aspect of uncertainty concerning the outcomes (i.e. risk). The bank applies a classification system of six so called risk profiles of investors ranging from defensive investment strategies (profile 1) to offensive investment strategies (profile 6). The average age of the participants was ($M= 47.01$, $SD= 10.10$) 75% was male and 22.1% was female the other 2.9% is missing. Participants could win an i-Pod nano for participating.

Distribution of participants over the six risk profil

	N	Percentage	Cumulative Percentage
Profile 1	17	12.5	12.5
Profile 2	23	16.9	29.4
Profile 3	14	10.0	39.7
Profile 4	27	19.9	59.6
Profile 5	29	21.3	80.9
Profile 6	26	19.1	100.0

Design

Purpose of this study is to find variables that can determine risk appetite and are related to the financial risk behavior of individual decision-makers. The model of Sitkin and Pablo is focused on explaining actual risk behavior, while the focus of the present study is to determine risk appetite. Risk appetite is defined as the risk level the investor is willing to accept. The supposition made here is that the same factors that explain risk behavior are best in determining the risk level the investor is willing to accept. Risk appetite has been measured in three ways, a direct Risk attitude measurement, the New profile and the Previous profile.

Two variables are believed to predict Financial risk behavior, Risk preference and Risk perception. Thus Financial risk behavior is the dependent variable in this model to be predicted by two mediating independent variables, Risk preference and Risk perception. Both Risk preference and Risk perception also serve as dependent variables for several exogenous factors.

Financial risk behavior was measured with three different variables. Two of these variables involve the current classification of the risk profiles by the bank. The assigning of individuals to risk profiles by the bank is done with a questionnaire consisting of nine questions. The answers individuals give to these nine questions are rated and from that a risk profile is computed.

The first variable involving the current classification of risk profiles by the bank is called Previous Profile. The Previous Profile is the profile to which the respondents are currently assigned to by the bank. Second variable is called New Profile, which involves the new computed profile of the respondents. For Previous Profile the risk profile was known, for Profile Current the nine original questions used by the bank were administered again to the respondents in order to assess their current risk profile. So for all the participants a new risk profile could be computed. This also provides the possibility of comparing the previous and new risk profile of each participant in order to determine whether changes occur in the risk profiles. Third dependent variable is a direct attitude assessment of risk behavior, which is assessed by the seventh item of the Risk propensity scale rated on a 9 point scale ranging from 1 (*risk avoider*) to 9 (*risk seeker*). High scores therefore indicate a risk seeking attitude. By using three different measurements of Financial risk behavior convergent validity can be established.

Measurement

Risk Preference. Risk preferences and risk propensity are very similar concepts. This is confirmed again by an interesting notion. The Choice Dilemma Questionnaire (CDQ) was designed to measure risk propensity (Kogan & Wallach, 1964). Yet this same instrument is the most widely used test instrument in order to indicate individuals' risk preference (Harrison et al, 2005). For practical limitations the CDQ could not be administered since the hypothetical stories do not only involve financial risks. Accordingly the CDQ was considered not appropriate for this questionnaire, since we contacted only clients from the bank. Since the CDQ is designed to measure risk propensity but is used to measure risk preference, other measurements of risk propensity are considered to indicate risk preference as well. The Risk Propensity Scale therefore is expected to measure risk preferences as well as it does risk propensity. Accordingly Risk preference is measured by the Risk Propensity Scale (RPS) and is believed to measure general risk taking tendencies (Meertens & Lion, 2008).

The RPS holds a previously reported internal reliability coefficient (Cronbach's α) of 0.77 and provides an adequate test-retest reliability. The predictive validity of the RPS has not yet been established but results from experiments showed that those who scored differently also behaved differently with regard to risk-related behavior. Data indicates that the RPS can distinguish risk avoiders from risk takers (Meertens & Lion, 2008). During the current study the internal reliability coefficient (Cronbach's α) is 0.92.

The RPS consists of 7 statements all are rated on a 9-point Likert scale ranging from 1 (*totally disagree*) to 9 (*totally agree*), except for the last item, which is rated on a scale ranging from 1 (*risk avoider*) to 9 (*risk seeker*). Moreover this item is used as a dependent variable since it is a direct attitude assessment. Item 1, 2, 3, and 5 are reversed scored so higher scores on the RPS indicate higher risk seeking tendencies.

One item of the original scale was adapted to the situation of financial decision-making. The original item held the statement 'I do not take risks with my health' this was changed into the statement 'I do not take risks with my financial means'.

Risk Perception. The risk perception scale was based on the risk perception measurement (Cronbach's α = 0.71) of Nordgren et al. (2007) and adapted to fit the situation of financial risk behavior and especially to the perception of risk when making financial decisions. Nordgren et al. (2007) have assessed perceived risk by asking their participants 'How great are the risks of X' on a 9-point scale. The measurement of risk perception contained five items on a 9-point scale ranging from 1 (*No risk*) to 9 (*Extremely risky*). So high scores indicate high risk perception and low scores indicate low risk perception. Participants with high risk perception are expected to display less financial risk behavior and participants with low risk perception are expected to display more financial risk behavior. Participants were asked to assess the riskiness of five different financial product categories. The different categories were; shares (or stocks), company bonds, government bonds, options, and real estate. The current study reported a slightly higher internal reliability score (Cronbach's α = 0.73) compared to previously reported reliability scores (Cronbach's α = 0.71).

Risk Preference as Dependent Variable. Risk preference will also serve as a dependent variable when assessing which variables can predict the risk preference of an individual concerning financial decisions. Variables believed to influence risk preference are Personality, Outcome history, Gender and Age.

Personality. Personality is believed to be a factor in predicting consumers' risk preference since different traits have established correlations with risk-taking behavior in other domains. Personality has been conceptualized from a variety of theoretical perspectives. The Ten Item Personality Inventory (TIPI) was presented to the participants. This questionnaire was chosen for its brief and confined features and for its strong correlation with other measures of personality.

TIPI has reached adequate levels of discriminant validity, test-retest reliability and patterns of external correlates. TIPI contains ten items on a 5-point scale ranging from 1 (*Not at all suitable to me*) to 5 (*Very strongly suitable to me*). Participants were asked to assess the extent to which ten sets of personality traits suited them.

Outcome History. Outcome history was assessed by asking participants to indicate how satisfied they are about the outcomes of their investments rated on a 5-point scale ranging from 1 (*Largely insufficient*) to 5 (*Largely sufficient*). High scores indicate that participants judge their outcome history to be successful and low scores indicate that participants judge their outcome history as unsuccessful.

Risk Perception as Dependent Variable. Risk perception will also serve as a dependent variable when assessing which variables can predict the risk perception of an individual concerning financial decisions. Variables believed to influence risk perception are Loss aversion, Anticipated Regret, Problem Framing, Optimism and Problem domain familiarity.

Loss Aversion. Participants read that by taking more risks, the chances of higher profits would increase and at the same time the chances of higher losses also increased. After that they were presented with six items each containing two different circles. They were told that the circles represented the possible value development of an investment portfolio after one year. One circle always indicated a sure gain of €200 the gain would be 100% guaranteed. The other circle always indicated a 50% chance of losing a certain amount and a 50% chance of gaining a certain amount. Participants were asked to choose between the circles. During the six items the possible amounts of gain and loss increased, the sure gain was in all cases €200,-. The sure gain was based on the mean rate of interest given on a savings account. The amounts in the uncertain choice option were based on result prognosis handled by the bank for the different profiles. Also the expected value of the uncertain choice options increased over the six different items, the expected value of the certain choice option was constantly the same.

Anticipated Regret was assessed by asking the participants to estimate their reaction to a dramatic decrease of the value of their investments, by evaluating the following statements; I would regret my decisions, I would be worried, I would stay calm, I would panic, It would make me feel unhappy, It would not affect my mental health. Respondents indicated their evaluation of the statements on a 5-point Likert scale ranging from 1 (*Completely agree*) to 5 (*Completely disagree*). Items 1, 2, 4, and 5 were reversed scored, so high scores on these items indicate high anticipated regret and low scores indicate low anticipated regret. Participants with high scores on anticipated regret are expected to engage less in financial risk behavior, participants with low scores on anticipated regret are expected to engage more in financial risk behavior.

Problem Framing. Problem framing during this study contains participant's assessments of their current financial situation. Their subjective perception of their financial situation can result in either a more or less positive frame or a more or less negative frame. Two questions were posed in order to measure problem framing, first question asked participants to indicate to what extent the current principal constituent of their income supports their lifestyle and expenses. Answers were given on a 5-point scale ranging from 1 (*largely insufficient*) to 5 (*largely sufficient*). With the second question participants indicated whether in general, they still had money left at the end of each month on a 5-point scale ranging from 1 (*I still have a lot of money left*) to 5 (*I am short a lot of money*). The second question was reversed scored, so high scores on both questions of problem framing indicated a positive frame and low scores on both items would indicate a negative frame of their current financial situation.

Optimism. Dispositional optimism has a previously validated measurement being the LOT-R (Life Orientation Test-Revised). The internal consistency (Cronbach's alpha = 0.78) and test-retest reliability ($r = .79$) are high. The current study has an internal reliability score of (Cronbach's alpha) 0.76 which is slightly lower than the previously reported reliability scores. The LOT-R contains ten items on a 5-point Likert scale ranging from 1 (*strongly agree*) to 5 (*strongly disagree*). Participants were asked to indicate to what extent they agreed with ten statements. The LOT-R contains four filler items which are excluded from analysis, these are items 2, 5, 6, and 8 and three items must be reversed scored, which are items 3, 7, and 9 in order for high scores to imply optimism.

Problem Domain Familiarity. Familiarity was assessed with three questions. First question asked them to evaluate their experience compared to others on a 5-point scale ranging from 1 (*very inexperienced*) to 5 (*very experienced*). Second question asked participants for their evaluation of their own investment achievements in the past on a 5-point scale ranging from 1 (*Very poor*) to 5 (*Very well*). Third and last question asked the participant how many investment transactions they had made on average per year over the last three years on a 5-point scale ranging from 1 (*None*) to 5 (*15 or more*). High scores on the questions about familiarity indicate high familiarity with investments and low scores indicate low familiarity with investments.

Procedure.

Questionnaires were administered online. Participants were instructed by letter to participate in the study, they received a link to a website and password to gain access to the questionnaire. Participants classified by the bank in risk-profile 1 were assigned to group A, participants classified as risk-profile 2 were assigned to group B, Risk-profile 3 to group C, risk-profile 4 to group D, risk-profile 5 to group E, and risk-profile 6 to group F. After logging on they were forwarded to the questionnaire and a short introduction

explained the purpose of the study. They were informed that the survey would be used to improve the assessment of the willingness to take risks, the duration of the study, and participants were asked to complete the questionnaire at once, read the questions well, and answer the questions honestly. Also when they wanted to have an opportunity to win the i-Pod nano to leave their e-mail address.

SAMENVATTING EN CONCLUSIES IN HET NEDERLANDS

Als een crisis een kans is, dan staat de financiële sector voor de grootste kans ooit. Deze dissertatie beschrijft fundamentele veranderingen in persoonlijk financieel advies en de noodzaak tot transformatie van financiële dienstverleners naar een klantgerichte organisatie. Hier wordt een samenvatting gegeven van het onderzoek, de conclusies en aanbevelingen. Tevens wordt een finale conclusie getrokken ten aanzien van de centrale vraagstelling. De bijdrage van deze studie aan de theorie en bestaande modellen wordt toegelicht en tot slot worden suggesties gedaan voor nader onderzoek.

1. SAMENVATTING

Persoonlijk Financieel Advies

Persoonlijk financieel advies wordt gedefinieerd als het continue proces van planning, uitvoering, bewaking en bijsturing van inkomen, uitgaven, vermogen en schulden, onder het gelijktijdig bewaken van risico's, ter ondersteuning van veranderende doelen, behoeften en draagkracht van individuen en hun huishouden, in opeenvolgende levensfasen.

Noodzaak tot Verandering

De crisis die de financiële dienstverleningssector heeft geraakt in 2008, heeft de noodzaak tot verandering in de wijze waarop persoonlijk financieel advies wordt geleverd, nog duidelijker gemaakt. Die verandering is vereist in het belang van de volgende partijen:

- **Klanten**, die dringend behoefte hebben aan gezond financieel advies, gelet op de toegenomen financiële risico's, als gevolg van de bezuinigingen op de Sociale Zekerheid en de collectieve arbeidsvoorwaarden, zoals ten aanzien van pensioenen, arbeidsongeschiktheid en werkloosheid. De moderne levensstijl, gekenmerkt door regelmatige veranderingen van werkgever en in persoonlijke relaties, de behoefte aan kinderopvang, wereld reizen en sabbatical, verhoogt de behoefte aan een goed financieel plan.
- **De sector financiële dienstverlening**, die het vertrouwen moet herwinnen, als basis voor het behoud van klanten en groei in omzet, terwijl tegelijkertijd de kosten

moeten worden gereduceerd, voldaan moet worden aan nieuwe eisen van zorgplicht en de strijd moet worden aangegaan met hevige concurrentie.

- **Toezichthouders**, die de standaards hebben gezet voor de wijze waarop financieel advies moet worden geleverd, maar niet in staat zijn geweest te voorkomen dat een serie klachten is opgetreden over adviespraktijken, die uiteindelijk ook tot erosie leidt van het vertrouwen in toezichthouders.
- **De maatschappij als geheel**, die uiteindelijk de rekening moet betalen van de financiële crisis, door het in rook op gaan van tegoeden, recessie, werkloosheid, extra bezuinigingen en additionele belastingmaatregelen.

Probleemstelling, Doelstelling en Centrale Onderzoeksvraag

De probleemstelling is als volgt omschreven:

Het voortduren van gebrekkige praktijken in persoonlijk financieel advies, leidt tot financiële nood bij klanten en verlies van het vertrouwen in zowel financiële dienstverleners als toezichthouders. Dit kan vervolgens leiden tot instabiliteit van financiële dienstverleners en de gehele financiële sector, terwijl de overheid in de toekomst niet meer in staat zou kunnen zijn om de vereiste borgsom te betalen om de sector te redden.

Het doel van deze studie is om een dergelijk somber vooruitzicht te voorkomen:

Om beleidsmakers en directieleden te voorzien van een theoretisch en empirische ondersteund model van persoonlijk financieel advies, zodat het voortduren van gebrekkige adviespraktijken kan worden voorkómen, die tot serieuze financiële problemen kunnen leiden voor klanten, financiële dienstverleners en de overheid.

Dientengevolge richt de centrale onderzoeksvraag zich op de ontwikkeling van een model van persoonlijk financieel advies, dat aan de volgende kwaliteitseisen voldoet:

Hoe kan persoonlijk financieel advies zo worden geleverd, dat het past bij de doelstellingen, behoeften en draagkracht van klanten, nu en in de toekomst, voldoet aan eisen van zorgplicht en aansluit bij de behoeften van financiële dienstverleners aan behoud van klanten en winstgevende groei?

Onderzoeksaanpak

Van de verscheidenheid aan beschikbare alternatieve onderzoeksstrategieën, zijn action research en case studies geselecteerd, als meest geschikt om een antwoord te geven op de centrale onderzoeksvraag.

Action research wordt getypeerd door samenwerking tussen onderzoekers en mensen uit de praktijk, die gezamenlijk in iteratieve stappen werken aan diagnose, planning, uitvoering en evaluatie.

De gepresenteerde case studies zijn geselecteerd uit de praktijk als adviseur en onderzoeker en hebben geleid tot een reeks artikelen over multi-channel distributie, persoonlijk financieel advies en de implementatie van fundamentele verandering in persoonlijk financieel advies.

Er is gekozen voor een aanpak met meerdere case studies om de generalisatie van conclusies te ondersteunen.

Daarnaast heeft de waardeleer het inzicht geleverd om een verklaring op te nemen betreffende gehanteerde waarden, aangezien de keuze van het onderwerp van studie, de aanpak en de interpretatie van resultaten beïnvloed wordt door waarden.

Dit is met name relevant, aangezien morele vraagstukken aan het financiële adviesproces ten grondslag liggen. Het werk en leven van Desiderius Erasmus drukt de humanistische waarden uit die ten grondslag liggen aan de analyse en de fundamentele veranderingen in persoonlijk financieel advies.

In een evaluatie van het onderzoek zijn de beperkingen aangegeven in termen van validiteit en betrouwbaarheid,

Diagnose

De praktijk van persoonlijk financieel advies, zoals heden ten dage geleverd door financiële dienstverleners, is beschreven voor drie klant segmenten, gemeten naar inkomen en vermogen. Het top en het midden segment, gezamenlijk slechts 10% van de Nederlandse huishoudens, worden bediend door een persoonlijk financieel adviseur. In het top segment staat de winstgevendheid van de dienstverlening reeds onder druk. Een gedetailleerde analyse van de wijze waarop persoonlijk financieel advies wordt geleverd voor het midden segment, heeft aangetoond dat de inspanning en kosten voor het opstellen van een Persoonlijk Financieel Plan, naar verwachting niet gecompenseerd kunnen worden door de omzet op de korte en zelfs de lange termijn. De afschaffing van provisies voor complexe producten en de verdere reductie van marges als gevolg van concurrentie, zal bovendien de winstbijdrage van persoonlijk financieel advies verder verminderen. Dientengevolge is de levering van een Persoonlijk Financieel Plan voor het midden segment in de toekomst economisch niet levensvatbaar. Het laagste klant segment, waartoe 90% van de Nederlandse huishoudens wordt gerekend, krijgt financieel advies van product adviseurs, die voornamelijk zijn gericht op verkoop. Gevolg is dat klanten met een grote verzameling financiële producten komen te zitten, die niet op elkaar zijn afgestemd. De kwaliteit van financieel advies dat wordt geleverd is in de meeste gevallen van een acceptabel nivo, maar rapporten geven aan dat er ruimte is voor verbetering, die

een aanzienlijke inspanning van adviseurs vereist om intrinsiek gemotiveerd te raken het klantbelang voorop te stellen.

Uit de diagnose van de financiële producten die zijn geadviseerd en geleverd, komt naar voren dat sommige producten ontworpen lijken te zijn om de voordelen te maximaliseren voor leveranciers en de adviseurs, terwijl de kosten en risico's aan de klant worden overgelaten. Financiële producten dienen in balans te zijn betreffende de afweging van belangen van klanten, adviseurs en leveranciers ten aanzien van voordelen, kosten en risico's.

De conclusie met betrekking tot de huidige praktijk van persoonlijk financieel advies is, dat een fundamentele verandering is vereist in de wijze waarop persoonlijk financieel advies wordt geleverd, zodanig dat:

- Een groeiende groep klanten wordt voorzien van gezond financieel advies.
- De kwaliteit van advies wordt geborgd, conform interne en externe regelgeving.
- Producten worden geleverd die de belangen van klant, adviseur en leverancier in evenwicht houden.
- De economische levensvatbaarheid van persoonlijk financieel advies wordt hersteld.

Action Planning op Basis van Theorieën en Modellen

In de Action Research aanpak volgt op de diagnose een fase van action planning. Op basis van theorieën en modellen vanuit verschillende disciplines, ten aanzien van het herontwerp van bedrijfsprocessen, het gedrag van consumenten, het financieel gedrag van individuen, marketing, bedrijfsethiek en informatie technologie, is een normatief raamwerk ontwikkeld van fundamentele veranderingen in persoonlijk financieel advies. Deze theorieën en modellen zijn toegepast op persoonlijk financieel advies. De modellen ten aanzien van herinrichting van bedrijfsprocessen ondersteunen de visie, dat fundamentele verandering in persoonlijk financieel advies kan worden bereikt, door industrialisatie van het persoonlijk financieel adviesproces, op een vergelijkbare wijze waarop Henry Ford de productie van auto's heeft veranderd. Door het bedrijfsproces 180 graden om te draaien, wordt gestandaardiseerd persoonlijk financieel advies mogelijk, voor een specifiek klant segment, in een specifieke levensfase en gericht op een specifieke gebeurtenis; bijvoorbeeld, een gestandaardiseerd advies voor een paar met dubbel inkomen, zonder kinderen, die voor het eerst een huis willen kopen.

Trends in het gedrag van consumenten geven aan, dat de zichzelf sturende klant gebruik wenst te maken van geholpen zelfbediening, ondersteund door het gebruik van internet, met hulp beschikbaar via een call center of persoonlijk contact. Via deze kanalen zijn klanten in staat het meest passende gestandaardiseerd advies te selecteren en aan te passen aan hun persoonlijke voorkeuren.

De theorieën over het financieel gedrag van individuen hebben het inzicht geleverd dat klanten lang niet altijd rationele beslissingen nemen, hetgeen de veronderstelling was van de nutstheorie. Verschillende concepten gebaseerd op de prospect theorie, die het besluitvormingsproces beschrijven, moeten in de beschouwing worden betrokken, waaronder verlies aversie, asymmetrische voorkeur voor risico, de voorkeur voor het midden en financieel analfabetisme.

Marketing heeft een raamwerk geleverd dat financiële dienstverleners ondersteunt in de ontwikkeling van levenslange relaties met klanten, terwijl pakketten van producten en diensten worden geleverd, om aan te sluiten bij de veranderende behoeften van klanten in opeenvolgende levensfasen. Voorbeelden van pakketten van producten, die synergetische voordelen kunnen opleveren voor klanten, adviseurs en leveranciers zijn beschreven in de all-in-one cash account, de all-in-one pension account, de all-in-one investment account, de all-in-one insurance account en de all-in-one business account. In dit raamwerk is de ondersteuning door moderne informatie en communicatie technologie essentieel, om voortdurend een passende combinatie van producten af te stemmen op de veranderende behoefte van klanten. De benodigde technologie staat bekend als een "Virtual Guardian Angel" (VGA).

Moderne bedrijfsethiek heeft verschillende theorieën en modellen opgeleverd, die relevant zijn voor persoonlijk financieel advies, waaronder de contract view, de due care theorie en de social cost benadering. Daarnaast blijkt het concept van libertair paternalisme met succes toegepast in de distributie van financiële diensten. Voorts is een model gepresenteerd met de zeven determinanten van vertrouwen, die door financiële dienstverleners gehanteerd kunnen worden om het vertrouwen te herwinnen.

Belangrijke ontwikkelingen in de discipline van informatie technologie, relevant voor het herontwerp van persoonlijk financieel advies, zijn klantgericht ontwerp en business intelligence. Klantgericht ontwerp omvat alle technieken, die een computer programma gemakkelijk en leuk maakt in het gebruik. Met business intelligence is het mogelijk te verzekeren dat persoonlijk financieel advies voldoet aan de daaraan gestelde interne en externe regelingen.

Op basis van bovenstaande inzichten is een normatief raamwerk ontwikkeld van fundamentele veranderingen in persoonlijk financieel advies.

Case Studies

Het normatief raamwerk is getest in verschillende case studies:

- **Pensioenplanners:** De case studies betreffende pensioen planners laten de noodzaak zien om informatie te consolideren vanuit een verscheidenheid aan bronnen, om voor een huishouden een compleet en overzichtelijk beeld te schetsen van de situatie bij pensionering. Er zijn inmiddels een groot aantal belangrijke stappen

gezet, waaronder de inrichting van het pensioenregister, maar essentiële stappen ontbreken nog. Met als gevolg dat vele particulieren nog steeds geen zicht hebben op hun financiële situatie tijdens pensionering en de wijze waarop zij hun lange termijn perspectief kunnen verbeteren.

- **Beleggingsadvies:** De case studies betreffende beleggingsadvies hebben laten zien dat het technisch, praktisch en economisch haalbaar is om gebruik te maken een Virtual Guardian Angel, om beleggingsadvies effectief te ondersteunen, via zelfbediening op internet, ondersteund door telefonische assistentie van adviseurs. Een diepgaande studie is verricht naar de eerste stappen in het proces van beleggingsadvies, die grote invloed hebben op het beleggingsresultaat, het bepalen en het gebruik van risicoprofielen. Concrete voorstellen voor de verbetering in het opstellen en gebruik van risicoprofielen zijn uitgewerkt.
- **Persoonlijk Financieel Advies:** De case studies gericht op persoonlijk financieel advies ondersteunen de visie, dat het technisch mogelijk is, aantrekkelijk voor klanten en winstgevend voor financiële dienstverleners, om persoonlijk financieel advies te leveren via geholpen zelfbediening. Het moet echter worden opgemerkt dat deze initiatieven nog niet op grote schaal zijn geïmplementeerd.

In de evaluatie van de case studies is gebleken dat de voorbeelden van de pensioenplanner en de investeringsplanner, zoals die zijn geïmplementeerd in de Verenigde Staten van Amerika, reeds vele van de fundamentele veranderingen in persoonlijk financieel advies omvatten, zoals die zijn gepresenteerd in het normatief raamwerk. Deze voorbeelden zijn met succes in Amerika geïmplementeerd. Voor de implementatie in de Nederlandse situatie zal echter aanvullende functionaliteit moeten worden geboden en advies over alle product domeinen heen. De case studies betreffende persoonlijk financieel advies bij het verzekeringsbedrijf en de bank, bieden een stevige ondersteuning voor de stelling dat het mogelijk is om persoonlijk financieel advies te leveren volgens het normatief raamwerk: klantvriendelijk, winstgevend en in lijn met interne en externe regelgeving. Deze cases zijn echter nog niet in de werkelijkheid toegepast. En daarom dient de vraag zich aan: Waarom niet?

Implementatie

Implementatie van fundamentele veranderingen in de wijze waarop persoonlijk financieel advies wordt geleverd, heeft grote invloed op alle niveaus en afdelingen in de organisatie van een financiële dienstverlener. De implementatie van persoonlijk financieel advies zal naar verwachting tot optimale resultaten leiden in een klantgerichte organisatie, waarbij de strategie, de organisatiestructuur, de bedrijfsprocessen, de informatie

architectuur, de mensen, de beloningsstructuur en de bedrijfscultuur gericht zijn op het winstgevend leveren van klantgerichte oplossingen.

De implementatie van persoonlijk financieel advies in een productgerichte organisatie zal echter worden geconfronteerd met een combinatie van "begrensde rationaliteit" en weerstand tegen verandering. Mensen in een organisatie nemen rationele besluiten, binnen de grenzen van hun organisatieonderdeel, hun functiebeschrijving en de grenzen van de beschikbare informatie en tijd.

Twee benaderingen zijn gepresenteerd voor de implementatie van transformatie: de evolutionaire en de revolutionaire aanpak.

De evolutionaire aanpak kan succesvol zijn, als de noodzaak tot verandering nog niet evident is en een aantal initiatieven kan worden ontplooid, zonder dat aanzienlijke investeringen vereist zijn, die op korte termijn voordelen bieden. Nieuwe initiatieven kunnen op dit succes voortbouwen, totdat het kantelpunt wordt bereikt, waarbij verandering niet meer is tegen te houden. Het succes van de evolutionaire aanpak is echter afhankelijk van gunstige omstandigheden. Een product georiënteerde organisatie wordt niet beschouwd als een gunstige omgeving voor de implementatie van persoonlijk financieel advies. Gevolg is, dat de kans op succes beperkt is om persoonlijk financieel advies te implementeren op basis van de evolutionaire benadering, aangezien vele financiële dienstverleners gekenmerkt worden door een overwegend productgerichte structuur.

De revolutionaire benadering kan alleen worden toegepast indien top management doordrongen is van de noodzaak en de urgentie van de verandering. In dat geval kan een veelheid aan initiatieven parallel worden uitgevoerd, waarbij alle medewerkers worden gemobiliseerd om het transformatieprogramma te ondersteunen, zodanig, dat tijdens de verbouwing de winkel open kan blijven. Degenen die niet in staat of bereid zijn mee te gaan in de verandering, zullen worden gevraagd het bedrijf te verlaten, hoewel het in het belang van het bedrijf is, dat zoveel mogelijk medewerkers de gewenste transformatie ondersteunen en daar hun bijdrage aan leveren. Een groot en ingrijpend veranderingssprogramma zal het transformatieproces voortstuw en versnellen.

Gelet op de grootte van de vereiste investeringen, de weerstand tegen verandering, de hoge risico's, onzekerheid over toekomstige baten en de onherroepbare kenmerken van de revolutionaire aanpak, is het begrijpelijk dat top management alleen besluit tot een revolutionaire aanpak, indien er geen andere mogelijkheid resteert. Er zijn echter voorbeelden waarin top management te lang heeft gewacht met een revolutionaire aanpak, hetgeen uiteindelijk tot bankroet heeft geleid.

Een veranderingspad wordt voorgesteld, dat de evolutionaire en revolutionaire aanpak combineert. Het startpunt is de evolutionaire aanpak, met een beperkt aantal ini-

tiatieven, beperkte inspanning, middelen en risico's, zodat het succes van persoonlijk financieel advies kan worden bewezen. Tegelijkertijd is een hoge mate van management betrokkenheid vereist, zoals in het geval van een revolutionaire aanpak, om ervoor te zorgen dat succesvolle initiatieven kunnen uitgroeien en zodoende het kantelpunt kan worden bereikt. Langs deze weg wordt verwacht dat een transformatie naar een klantgerichte organisatie succesvol zal zijn.

Aanbevelingen

De aanbevelingen zijn gericht aan het adres van financiële dienstverleners, de toezichthouders en de overheid.

1. De belangrijkste aanbevelingen voor financiële dienstverleners zijn:
 - 1.1. Implementeer persoonlijk financieel advies zoals hier gepresenteerd, om (1) te voldoen aan interne en externe regels en richtlijnen, die de kwaliteit van advies verzekeren, (2) een groeiend aantal klanten te ondersteunen, die behoefte heeft aan gezond financieel advies, (3) naadloos aan te sluiten op doelen, behoeften en draagkracht van klanten, (4) een optimaal pakket aan diensten te leveren in termen van voordelen, kosten en risico's, (5) in een goede balans van belangen van de klant, de adviseur en de producent, (6) klanten in staat te stellen "in control" te zijn van hun eigen financiële situatie, (7) een levenslange wederzijds voordelige relatie met de klant te ondersteunen, (8) het vertrouwen van het publiek in financiële dienstverleners te herwinnen, (9) persoonlijk financieel advies aan te bieden op een winstgevende wijze, (10) de omzet te laten groeien door optimale cross selling, (11) de kosten voor dienstverlening aan klanten te reduceren, (12) het risico management te verbeteren voor klant en financiële dienstverlener, (13) slechte adviespraktijken te voorkomen, die het imago van de financiële sector aantasten, (14) nieuwe klanten aan te trekken en (15) de concurrentie te verslaan.
 - 1.2. Kies een veranderingspad voor de transformatie naar een klantgerichte organisatie die de voordelen van een evolutionaire benadering (kleine stappen, beperkte middelen en risico's, korte implementatietijd en onmiddellijk resultaat), combineert met de kracht en betrokkenheid, die het kenmerk zijn van een revolutionaire aanpak, om te verzekeren dat succesvolle initiatieven kunnen groeien, zodat uiteindelijk de manier van bedrijfsvoering verandert.
2. De belangrijkste aanbevelingen voor de toezichthouders zijn de volgende:
 - 2.1. De eerste aanbeveling aan de AFM is om de regelgeving zo aan te passen dat persoonlijk financieel advies zoals hier gepresenteerd, kan worden toegestaan. De AFM zou de normstelling zodanig moeten aan te passen, dat een persoonlijk gesprek tussen adviseur en klant niet wordt geïmpliceerd of noodzakeli-

- ijkerwijs wordt vereist, als de enige wijze waarop goed of excellent advies kan worden geleverd. Persoonlijk financieel advies via geholpen zelfbediening en gebaseerd op gestandaardiseerde plannen voor specifieke klantsegmenten, levensfasen en gebeurtenissen kan resulteren in een kwaliteit die even goed is of nog beter, dan advies volgens de traditionele aanpak.
- 2.2. De AFM zou geleidelijk het accent moeten verleggen van ex-post naar ex-ante toezicht, waarmee door de inbouw van kwaliteitsfilters in het adviesproces bij financiële dienstverleners, de kwaliteit van advies en producten kan worden geborgd. De AFM kan het gebruik van geautomatiseerde bedrijfsregels stimuleren die de kwaliteit van advies borgen, door een certificatie programma, op basis van welomschreven niveaus van certificatie. Bovendien kan de AFM de certificatie van (combinaties van) financiële producten initiëren en faciliteren, ten aanzien van de voordelen, kosten en risico's voor klanten.
3. De belangrijkste aanbevelingen voor de overheid zijn:
 - 3.1. Aan de overheid wordt geadviseerd om de verbetering van persoonlijk financieel advies te ondersteunen door concrete normen te stellen en financiële dienstverleners aan te spreken op hun maatschappelijke verantwoordelijkheid om klanten te helpen in het beheren van hun financiële situatie.
 - 3.2. De overheid wordt geadviseerd om de ontwikkeling van een doorlopend platform voor educatie op het gebied van persoonlijk financieel management te ondersteunen, voor burgers in alle leeftijdsklassen, te beginnen met kinderen.
 - 3.3. De overheid, als de grootste financiële dienstverlener, die verzekeringen en pensioenen levert voor alle burgers, wordt geadviseerd te investeren in de verstrekking van een jaarlijks, gepersonaliseerd overzicht, om inzicht te geven in opgebouwde rechten (een Universeel Financieel Overzicht). De overheid zal zich realiseren dat als het publiek niet juist, tijdig en op een samenhangende en begrijpelijke manier is uitgelegd welke risico's worden gelopen, als gevolg van veranderingen in Sociale Zekerheid, belastingen en ontslagrecht, door burgers geen actie zal worden ondernomen tot het te laat is. Als de burgers tijdig worden geïnformeerd, kunnen zij op tijd passende maatregelen nemen en zo voorkomen dat zij financieel afhankelijk worden van de staat.

2. CONCLUSIE

Om de finale conclusie van deze dissertatie te formuleren wordt teruggegrepen op de centrale vraagstelling. De centrale vraagstelling van deze dissertatie is de volgende:

Hoe kan persoonlijk financieel advies zo worden geleverd, dat het past bij de doelstellingen, behoeften en draagkracht van klanten, nu en in de toekomst, voldoet aan eisen van zorgplicht en aansluit bij de behoeften van financiële dienstverleners aan behoud van klanten en winstgevende groei?

Onderzoek naar de praktijk van persoonlijk financieel advies heeft laten zien dat er ruimte is voor verbetering in de kwaliteit, om te voldoen aan interne en externe regelingen. Bovendien is gebleken dat persoonlijk financieel advies voor de lagere en midden klantsegmenten economisch niet levensvatbaar is en dientengevolge niet aansluit bij de behoeften van financiële dienstverleners aan winstgevende groei.

Op basis van literatuur en rapporten is een normatief raamwerk ontwikkeld, waarlangs in theorie, persoonlijk financieel advies kan worden geleverd, zodanig dat het aansluit bij de doelstellingen, behoeften en draagkracht van klanten, nu en in de toekomst. Fundamentele veranderingen in de praktijk van persoonlijk financieel advies zijn gepresenteerd. Een serie van case studies heeft geleid tot de conclusie dat persoonlijk financieel advies, ondersteund door de innovatieve concepten die zijn gepresenteerd, kan worden geleverd op een klantgerichte wijze, in lijn met eisen van zorgplicht en winstgevend. Deze concepten zijn echter nog niet op grote schaal geïmplementeerd.

Het onderzoek heeft zich vervolgens gericht op de redenen waarom de nieuwe concepten betreffende persoonlijk financieel advies nog niet op grote schaal succesvol zijn ingevoerd, waarbij gebonden rationaliteit en weerstand tegen verandering in de voornamelijk product georiënteerde organisaties van financiële instellingen naar voren zijn gekomen. Als gevolg daarvan is de kans op een succesvolle implementatie van persoonlijk financieel advies gering, zonder dat de organisatie van de financiële dienstverlener transformeert naar een klantgerichte organisatie. Deze transformatie vereist de ondersteuning en de betrokkenheid van het management van de financiële dienstverleners, de toezichthouders en de overheid. Een verandering van strategie en/of de beloningsstructuur is niet voldoende. Zodoende kan op basis van het onderzoek geconcludeerd worden dat het antwoord op de centrale vraagstelling als volgt is te geven:

Het management van financiële dienstverleners, de toezichthouders en de overheid zouden moeten samenwerken om de organisatie van financiële dienstverleners in klantgerichte organisaties te transformeren, die de groeiende groep klanten kunnen ondersteunen in het effectief beheer van hun persoonlijke financiën, in een balans van belangen, door het gebruik van Virtual Guardian Angels, resulterend in levenslange wederzijds voordelige relaties tussen klanten en financiële dienstverleners. Het is van het grootste

belang voor klanten, de financiële dienstverleners, de toezichthouders en de overheid, om een nieuwe financiële crisis te voorkomen. Het vertrouwen van het publiek in de financiële sector moet worden hersteld.

3. BIJDRAGE AAN THEORIE

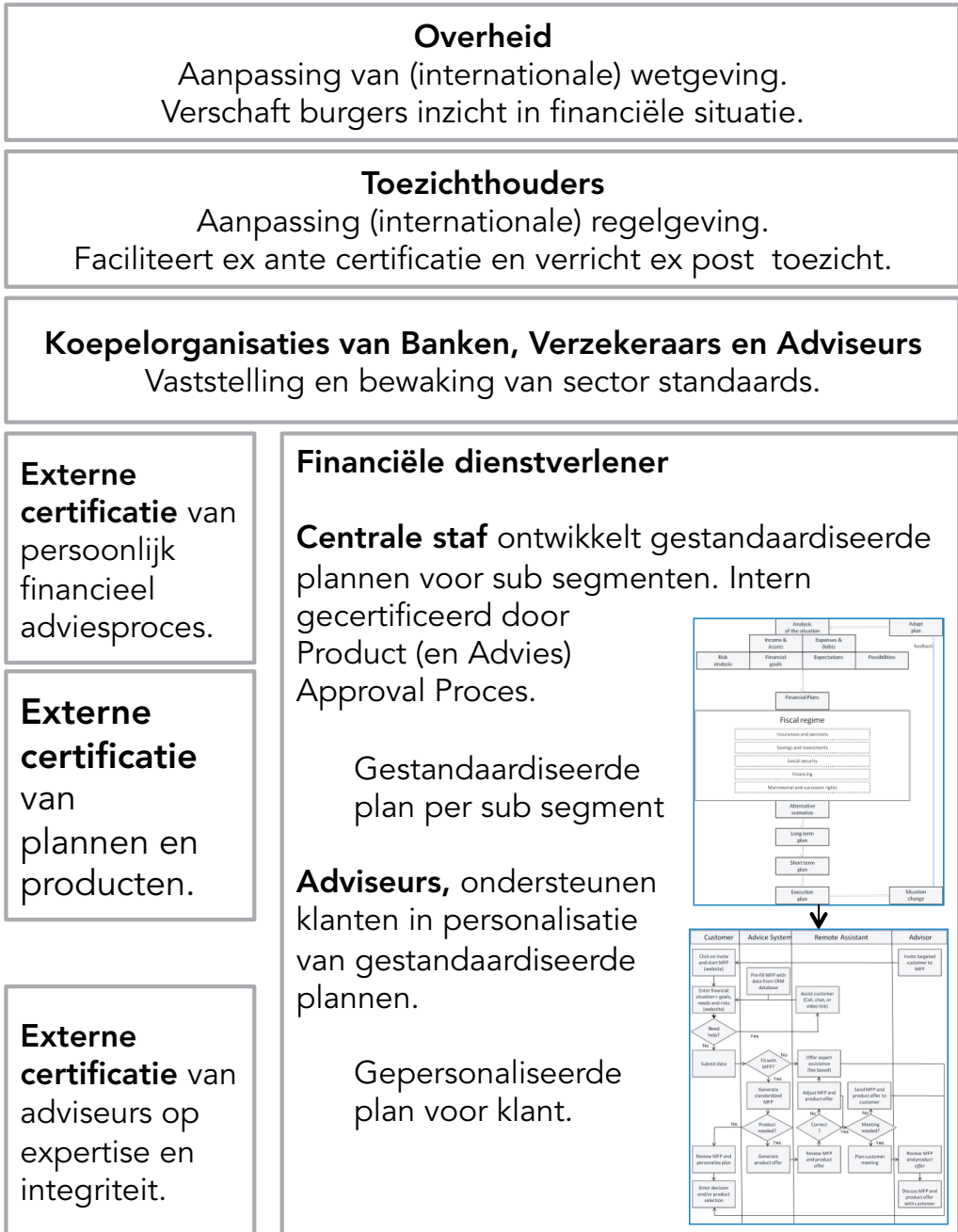
In Hoofdstuk 1 is een model voor persoonlijk financieel advies geschetst (Figuur 1.1) en een definitie van persoonlijk financieel advies geleverd. Deze studie draagt bij aan de theorie en modellen betreffende persoonlijk financieel advies. Fundamentele veranderingen in persoonlijk financieel advies zijn gebaseerd op de analyse van persoonlijk financieel advies in de praktijk en worden ondersteund door theorieën en modellen uit verschillende disciplines. Op basis daarvan is een normatief raamwerk van fundamentele veranderingen in persoonlijk financieel advies ontwikkeld en dat raamwerk is getoetst in de case studies. Fundamentele veranderingen zijn vereist, omdat de aannames, die ten grondslag liggen aan de traditionele wijze van persoonlijk financieel advies niet meer overeenstemmen met de werkelijkheid en aangepast moeten worden. Bodie en Prast (2007) hebben reeds melding gemaakt van een paradigma verandering in persoonlijke financiële planning. In Tabel S.1 worden de veranderingen in de aannames gepresenteerd.

Op basis van de nieuwe aannames, is een model voor persoonlijk financieel advies afgeleid. In Figuur S.1 is het persoonlijk financieel adviesproces opgenomen van Van den Berg & Looze (2007), ingebed in de interne normering, gericht op de borging van de kwaliteit van het adviesproces (door middel van gestandaardiseerde plannen en het approval proces) en externe normering vanuit de overheid, toezichthouders en de koepelorganisaties. De kwaliteit van het persoonlijk financieel advies wordt ex-ante verzekerd, door externe certificatie van adviseurs, het persoonlijk financieel adviesproces, gestandaardiseerde plannen en (combinaties van) financiële producten. Continue verbetering van persoonlijk financieel advies vereist de samenwerking van alle betrokken partijen.

Aannames die aan traditionele wijze van financiële dienstverlening en persoonlijk financieel advies ten grondslag liggen.	Aannames die aan de nieuwe wijze van financiële dienstverlening en persoonlijk financieel advies ten grondslag liggen.
Welvaartsstaat	Individualisatie.
40 jarig dienstverband.	Verandering van werk om de 7 jaar.
Traditionele levensstijl.	Moderne levensstijl.
Pensionering met 65 of eerder.	Pensionering met 66 of later.
Financiële planning, voor vermogenden.	Financiële planning, vereist voor een ieder.
Financiële planning is een discreet proces.	Financiële planning is a continu proces, inclusief monitoring en alerts.
De klant is financieel analfabeet en niet geïnteresseerd in financiën.	De klant is verantwoordelijk en wil "in control" zijn.
Klanten prefereren persoonlijk contact met een adviseur.	Klanten prefereren de flexibiliteit van geholpen zelfbediening.
Klanten beslissen op basis van maximalisatie van nut.	Klanten beslissen op basis van maximalisatie van ervaren nut.
Alle klanten zijn uniek.	Klanten in hetzelfde segment, in een vergelijkbare levensfase en gebeurtenis, hebben vergelijkbare financiële behoeften en doelstellingen.
Een persoonlijk financieel plan is maatwerk.	Personalisatie op basis van een gestandaardiseerde plan levert een evengoed of beter resultaat.
Het risicoprofiel wordt vastgesteld tijdens een bijeenkomst van klant en adviseur.	Het risicoprofiel wordt bepaald door de klant op basis van een objectief advies geleverd door de adviseur en de vaststelling van risicopreferentie en verlies aversie.
De adviseur is een expert in financiële planning, inclusief fiscale aspecten, sociale zekerheid, beleggingen, hypotheek, pensioenen, erfrecht, etc.	De adviseur is een coach in het proces van verkenning en besluitvorming door de klant ten aanzien van voordelen, kosten en risico's van alternatieve scenario's .
Financiële dienstverleners leveren toegevoegde waarde op basis van producten.	Financiële dienstverleners leveren toegevoegde waarde op basis van combinaties van producten die aansluiten op de behoeften van klanten in opeenvolgende levensfasen.
Financiële producten leveren resultaat conform verwachting.	Er zijn risico's en kosten verbonden aan elk financieel product, die helder moeten worden toegelicht en in de overweging betrokken.
De provisies en marge op financiële producten zijn voldoende om de kosten van advies te dekken.	Provisies op complexe financiële producten worden afgeschaf, terwijl de marges en vergoedingen vereisen, dat persoonlijk financieel advies op de meest efficiënte manier wordt verzorgd.
Een Product Approval Proces verzekert een goede balans in de verdeling van voordelen, kosten en risico's tussen de klant en financiële dienstverlener.	Een externe certificering van (combinaties van) financiële producten op basis van voordelen, kosten en risico's voor de klant, is te prefereren.
Ex-post toezicht door de AFM is effectief.	Ex-ante toezicht door AFM is vereist om bedenkelijke adviespraktijken in de toekomst te voorkomen.

Tabel S.1: Aannames die ten grondslag liggen aan financiële dienstverlening

Figuur S.1: Persoonlijk Financieel Advies in Context



4. SUGGESTIES VOOR NADER ONDERZOEK

De sector financiële dienstverlening staat voor een kruispunt. De conclusies en aanbevelingen uit dit onderzoek geven een richting aan die grote invloed heeft op alle betrokken partijen. In de laatste fase van deze studie is een serie interviews gehouden met vertegenwoordigers van de sector financiële dienstverlening, de overheid, toezichthouders en academici, om de conclusies en aanbevelingen te evalueren. Deze interviews zijn uitgevoerd met vertegenwoordigers van ABN AMRO, ABP, AEGON, AFM, Besparing-splanner, Consumentenbond, ING, MnServices, Nationale Nederlanden, Ministerie van Financiën, Nibud, NVB, Rabobank, Sociaal Cultureel Planbureau, Stichting Financiële Dienstverlening, Univé, Vereniging Eigen Huis, Vereniging Federatie Financiële Planners, Verbond van Verzekeraars en de Wetenschappelijke Raad voor het Regeringsbeleid. Internationaal zijn de concepten uit de studie besproken met vertegenwoordigers van Barclays (UK en Singapore), BB&T (US), Discover Bank (US), Generali (B), HSBC (US and UK), RBS (UK) en Westpac (Australia).

De reacties waren positief en hebben aanvullende inzichten en overwegingen naar voren gebracht, die in het normatief raamwerk verder ondersteunen. Onderzoekers en praktijkmensen worden uitgedaagd een bijdrage te leveren aan nader onderzoek. Ondermeer op de volgende belangrijke terreinen:

- Transformatie van financiële dienstverleners naar klantgerichte organisaties.
- Gestandaardiseerde plannen voor klantsegmenten, levensfasen en gebeurtenissen.
- Ontwikkeling van Virtual Guardian Angels die financieel advies ondersteunen.
- Studie naar vereiste veranderingen in de regels betreffende zorgplicht.
- Onderzoek naar certificatie van persoonlijk financieel advies.
- Haalbaarheidsstudie naar de realisatie van een Uniform Financieel Overzicht.
- Onderzoek naar de relevantie van de onderzoeksresultaten buiten Nederland.

CURRICULUM VITAE

Bas Schuurmans is a Business economist and Master in Financial Planning, with over thirty years of experience as a Business, Organization & IT consultant in the financial services industry. In his work and study he focuses on the optimization of financial services distribution and personal financial advice.

Bas Schuurmans (1954) completed his studies in Business Economics at the Erasmus University in Rotterdam, The Netherlands in 1979.

He started his career at AEGON Insurances, where he became the Head of the Central Organization Department, responsible for major change programs as a result of new information systems, internationalization, as well as mergers and integration.

After seven years he joined a management consulting firm (now part of Berenschot), driving business change programs at financial institutions.

Next he directed his own consultancy firm, which rapidly grew on the basis of assignments in Business Process Redesign at financial services companies.

He joined the Capgemini Financial Services Sector in 1990, where he worked seven years as a Director in the International Financial Services Sector and managed a team of banking consultants worldwide. His team focused on the distribution of financial services and the implementation of multi-channel distribution platforms.

In 2007 Bas Schuurmans finished his masters degree in Financial Planning at the Erasmus Institute for Financial Planning in Rotterdam. Now he focuses primarily on transformation programs in the distribution of financial services and the implementation of personal financial advice, in The Netherlands and abroad.

Bas Schuurmans participates in the international Centers of Excellence Retail Banking and Wealth Management of the Capgemini Global Financial Services Sector.

If a crisis is an opportunity, the financial services sector faces the biggest opportunity ever.

The financial crisis underlined the urgency for change in the way financial services are delivered:

- Customers need better support in making sound financial decisions.
- Financial service providers need to regain trust, retain customers and grow revenues profitability.
- Regulators have to find better ways to prevent poor practices in financial advice from happening again.

A fundamental change in personal financial advice is required and attainable, to support customers and financial service providers in sustaining life long and mutually beneficial relationships. By implementing personal financial advice in the way described here, financial service providers will be able to transform gradually and in a controlled way, from product centric organizations into customer centric organizations. Moreover, regulators will be able to ensure the quality of customer care in advance, rather than having to intervene afterwards.

Although the study focuses on the financial services market in The Netherlands, the concepts have received warm interest internationally.



Bas Schuurmans is a Business economist and Master in Financial Planning, with over thirty years of experience as a Business, Organization & IT consultant in the financial services industry. In his work and study he focuses on the optimization of financial services distribution and personal financial advice.