CAPCO

LETTING LIFE LEAD FINANCIAL PLANNING

INTRODUCTION

Life happens. And, of late, a lot of life happened. COVID-19, government policies, inflation, the rise of crypto and de-fi, the Russian-Ukrainian conflict, you name it. Each generation is shaped by events and trends that influence our lives. Canadians, along with the rest of the world, have been facing ever-increasing cost of living and an increasing wealth gap. Furthermore, in the last two years in which the world dealt with COVID-19, many of these trends accelerated – The Great Resignation, the migration out of cities, the migration out of provinces, and alike.

The wealth management universe is significantly affected by these changes; clients are questioning what these events mean for them and their financial situation, and financial professionals are working tirelessly to ensure that, despite recent changes, their clients' financial situation can react and proactively adjust to the evolving landscape. Furthermore, because of recently introduced client focused reforms (CFRs), advisors have an increased imperative to know their clients and reflect this understanding in the services they provide. In the face of all the change and uncertainty, the need for a comprehensive and malleable financial plan has become that much more apparent.

Helping clients reach their short-term and long-term goals with the right mix of savings and investments is central to goal-based planning. The nature of these goals is dynamic and flexible, making it crucial for advisors to manage progress consistently and responsively. Having the right tools are essential and in Canada, many financial institutions have already moved towards utilizing goals-based planning tools. However, the key gap that exists in these tools remains – data. Having data is critical to enabling an events-driven approach that will help clients accommodate and adjust for life, economic, political, and regulatory events so they can keep their goals front and center, and up-to-date.

Traditionally, financial planning has been contingent on the information provided by clients directly and how frequently they keep their advisors updated so the accuracy and completeness of the plan is incumbent entirely on what the client discloses. The challenge here is that clients often have limited time together with their financial advisor or planner, and furthermore, it is exceedingly difficult for most people to have detailed and up-to-date information of their complex finances. That said, building a complete financial picture and maintaining an updated view of the clients' financial situation is paramount to helping clients realize their goals – a task often easier said than done.

Given the digitally enabled world we live in, life events need to feed into financial planning as they happen. As life becomes more complex and externalities increase, the unforeseen effects to a client's financial situation are mounting. To combat this, the concept of predictive financial plans that are built on data that derives client-based insights to help financial professionals (e.g., financial advisors, planners) provide more comprehensive and personalized financial plans, is gaining traction. In practice, this would empower financial advisors and planners with relevant, actionable client insights to initiate client-conversations before clients even realize their plan requires an update.

Despite its apparent advantages, firms face several challenges when converting this concept to a reality. In this paper, we will discuss the key challenges facing financial planning today and our view as to what firms should do to overcome them and transform their financial planning capabilities.

A FEW HURDLES TO OVERCOME

1. The "Underplanned"

Typically, only higher net worth individuals have financial plans. Many top financial planners work as fee-based planners and serve higher net worth individuals and families with highly comprehensive plans. A large part of this is driven by the perception that a certain amount of wealth is needed to justify having a financial plan. Additionally, there is a huge knowledge gap among a majority of Canadians on what exactly a comprehensive financial plan is supposed to cover. In fact, 80% of those surveyed in a 2021 study by IG Wealth Management think that in-depth financial plans only encompass portfolio and asset management. Consequently, tremendous value can be realized for clients to have additional aspects of a comprehensive financial plan, which generally consists of six key components, all of which have interdependencies and require input from various professionals:

- **Financial Management** – Focuses on the client's spending, saving and borrowing
- **Tax Planning** – Strategies to minimize or defer taxation to strengthen client financials
- **Asset Management** – Management of the client's assets based on risk tolerance and goals
- **Insurance & Risk Management** – Strategies to manage the client's exposure to various risks (e.g., death).
- **Retirement Planning** – Management of the client's financial well-being in retirement
- **Estate Planning** – Focuses on the distribution of assets upon death, as well as legalities

A 2021 FP Canada study on financial stress among Canadians found that nearly 65% of respondents did not have a certified comprehensive financial plan in place. Clearly, the opportunity to address this segment is there, however, costs are a barrier which needs to be driven lower:

- For the client or prospective client, plans are costly, both in terms of time invested to create one and in terms of dollar costs incurred. Given that most people aren't even aware of what a comprehensive plan includes, the perceived benefits of a plan from a client perspective, do not outweigh the cost for one, be it in dollar terms or in terms of time

- For the financial institution, the data gathering step in the financial planning process is a highly manual, highly time-consuming, and thus costly step. Sufficient qualitative and quantitative data is required before anything else can be done and the steps that follow are well supported in relation to this step

It is necessary for financial institutions to address the knowledge gap, so people start to demand financial planning and at the same time, bring down the cost of having one created. Not all aspects of the financial plan necessarily need to be created at the same time, but as the needs of the clients change, so too can the complexity of their plan.

2. Building and Maintaining a Holistic Financial Picture

With the collection of qualitative and quantitative data being as costly as it is in terms of time, the fact that most people do not hold all their assets or do business with the same financial institution makes building a holistic financial picture all the more challenging. According to a report published by the Canadian Bankers Association in 2022, there are 40 different banks that offer a range of financial products and services to Canadian consumers, which points to the challenge of unifying data across multiple financial institutions to paint a complete picture of client's financial circumstances and provide tailored services. Often people have trouble keeping track of and disclosing all the information their financial advisors or planners need as vital input into the planning process.

Even if a full financial picture comes into focus, maintaining an accurate view of what has changed is the next challenge. Clients may create and close accounts, do business with new financial institutions, so keeping up with the ever-changing business relationships is not easy. Everyone moves through life and hits milestones, changes in circumstance, and all sorts of events that create all sorts of new needs and invalidates old ones.

Being able to derive actionable insights as clients' situations change is invaluable not only because it keeps them moving in the right direction, but also because timely pivots can make all the difference as the entirety of the financial plan may be updated. Of course, clients are busy living life and often people simply do not prioritize updating their financial plans – Almost 71% of respondents surveyed in a 2021 Ipsos study have not connected with a financial advisor in the past year.

As the plan becomes more comprehensive, more professionals need to be involved and keeping everyone aligned and informed can be challenging. Team collaboration is required to support the financial plan and a gap in coordination and awareness within the team will result in a plan that loses the cohesion it started with as changes from life events start to impact the plan.

3. Compliance

Although there is no set regulatory requirement to update financial plans, Client Focused Reforms (CFR) require that advisors and firms remain up to date on client risk tolerances and their ability to withstand financial losses – with these changes intended to result in more suitable investment portfolios. At the very least, Advisors must either update KYC information on an annual basis for managed accounts or as soon as they are aware of changes to a client's personal or financial situation.

With many financial professionals having large books of business, maintaining regular touchpoints and ensuring that their understanding of the client remains up to date is difficult. If 7 out of 10 people do not meet with their advisors within the year, compliance is most certainly an issue. Timely alerts would make client relationship management more efficient and allow for pivotal conversations to be had with clients sooner rather than later to meet compliance requirements.

Maintaining compliance can therefore be a costly function, as some firms can employ a significant amount of their workforce on costly KYC and other risk and compliance related activities. Streamlining this process would enhance the client experience and could make compliance more efficient.

DATA AS A FOUNDATION

To overcome these challenges and provide clients with highly personalized financial plans, firms not only need to tap into all of clients' relevant and available internal data but also robust external data.

1. Building a Holistic Picture

The collection of client data from other financial institutions is not a new idea. Screen scraping has been used to achieve this for many years now and today's data aggregators still use this today. Canada's Advisory Committee for Opening Banking argues that the most secure way for Canadians achieve portability of their financial data is through more secure opening banking APIs as opposed to use of third-party data aggregators with which clients must share their login information. The concept of open banking solves this problem but that's a work in progress.

Open banking in Canada is to be neither a government driven or industry driven initiative to meet Canadians' demand for portable financial date – A hybrid solution is targeted for January 2023, to be offering an initial data set that is based on what users of online banking would have access to. That said, Canada's moving towards data portability one way or the other.

Canadian fintech, Flinks, is among many data aggregators that consolidates financial data like KYC data, transactional data, and investment account data. And they are moving into the Wealth industry. They provide financial institutions access via open banking APIs with data that could be used to feed into financial planning and KYC / Anti-Money Laundering (AML) processes.

Whether the data comes from each financial institutions via their own opening banking API's or a data aggregation service, it would serve as a fundamental underpinning for the next generation of financial planning by not only providing key insights into client spending habits and their investment assets but also adding a layer of security for financial institutions as they gain a clearer picture into the financial backgrounds of clients they are doing business with.

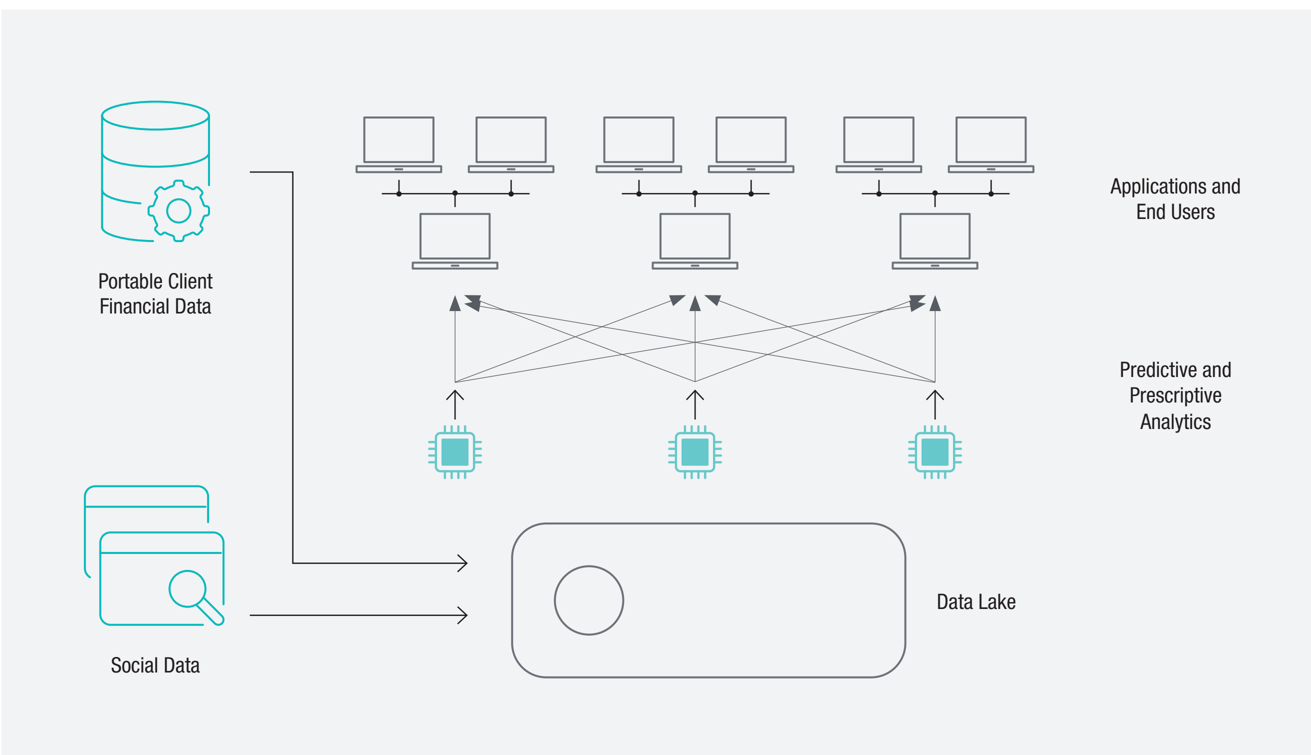
2. Getting Social

Having a foundational view is a necessary starting point but what about client preferences, interests, big life events, and other important inputs? How can these things factor into financial planning? Often, social media platforms are where people discuss the things that matter most to them, as life happens. And when it does, updating a financial plan is not exactly top of the list. This makes social data an especially important source of input to enabling a predictive plan.

Social media should be an integral part of a corporate data strategy and financial institutions are starting to incorporate this key data. A large US bank leveraged unstructured social data from Facebook and Twitter to identify customer life milestones such as graduations, marriages, and childbirth and correlated them to products and services as well as pricing, rates, and policies that customers viewed as important. Using natural language processing of this data allowed the bank to create specific customer segments and product targeting. Companies like Salesforce also help its customers with products like Social Studio to fine tune their marketing – But the applications and potential to be harnessed by deep financial service professionals are largely untapped.

There's essentially two ways in which social media could be utilized. Within a social ecosystem in which clients are interacting with the financial institution directly, social listening could be leveraged to provide insights on specific clients and their financial needs. For example, imagine a client posting a mention of an expectant child and their financial advisor or planner being alerted that their client may need a RESP account to be opened soon – Triggers for the financial planning team to have conversations with the client with recommendations on that take all aspects of the plan into account.

However, within a broader social ecosystem in which clients cannot be identified, social media could then provide essential data required to create segmentations of clients, financial needs, and sentiment. For example, suppose social listening provided insights on key interests for a demographic clients belong to, which could become triggers to establish new financial goals to help those clients ensure they had resources to pursue those interests. The possibilities are really as broad as the breadth of discussions that are sourced.



FROM DATA TO INSIGHT

There are four key types of analytics a firm could utilize, each adding insights to the last with increasing sophistication:

BACKWARD LOOKING	FORWARD LOOKING
1. Descriptive Analytics	3. Predictive Analytics
2. Diagnostic Analytics	4. Prescriptive Analytics

The first two are backward looking, seeking to explain what's already occurred. This is where most firms' capabilities are today. The latter two are forward looking and they seek to help navigate into the future.

1. Descriptive Analytics

Descriptive analytics involves the summation and analysis of raw data to determine findings, so that historical data can be better consumed and understood. By leveraging descriptive analytics, Financial Advisors are effectively able to answer the question of what happened?

This type of analytics can be thought of as formulaic calculations on a data set. In practice, this can include analysis of historical cash flows, income statement figures, atnd portfolio performance. Often, they are manifested as consumable dashboards and KPI reports for both Advisor and Client consumption.

2. Diagnostic Analytics

Diagnostic analytics are often used as a supplementary tool to answer the question of *why this happened*? This builds upon descriptive analytics by involving deep dive analyses of historical data and investigating the probable root causes of failure.

Through Diagnostic analytics, analysis often involved other data sets which can be used to establish correlations and relationships that Descriptive analytics does not provide. Because there's greater visibility on the variables involved, the analytics can identify possible explanations on what drove the outcome and thus, providing more context to both the firm and its clients. These insights would often manifest within dashboards as additional information.

3. Predictive Analytics

Both descriptive and diagnostic analytics will provide analysis and insight from a historical perspective and so does not really help to navigate the path forward. In contrast, predictive analytics are used to predict potential future outcomes. From a Wealth perspective, predictive analytics enable Financial Advisors to answer the question of *what should be done*? This analysis is made possible by analyzing substantial amounts of data while applying statistical modeling and machine learning. A key consideration being that the accuracy of predictions, in this case, are only as strong as the data going into the predictive analysis.

In practice, predictive analytics can be leveraged to improve on preventive maintenance practices or enhance the outcomes for clients. For example, predictive analytics could be used to analyze spending habits to anticipate challenges ahead if client's life circumstances change, based on analytics of much larger data sets. Imagine, a client's data indicates they may have become parents based on spending or social data. So now based on their retirement goals and available free cash flow, they may need to adjust retirement goals to save for education. This can trigger an alert for both the client and their financial advisor that a conversation should be had. Such timely insights provide the opportunity to be much more proactive in ensuring that goals are met.

4. Prescriptive Analytics

The last technique, prescriptive analytics, enables stakeholders in the Wealth ecosystem to leverage data analytics to improve decision making, and as a by-product, the effectiveness of actions. In doing so, prescriptive analytics helps answer the question of *what will happen if I…*?

Unlike predictive analytics, prescriptive analytics goes beyond predictions and introduces mitigations by providing potential courses of action, along with their respective implications.

Like predictive analytics, prescriptive analytics require extensive and accurate data to be meaningful. The analysis of this data will leverage various mathematical techniques including simulations, optimization, and machine learning.

Building on the previous example, additional data could be added to the model to drive more meaningful touch points as a firm becomes more sophisticated in its use of data and analytics. Imagine if the current inflation statistics provides greater clarity into the real rates of return and impact to the overall financial plan for clients that are within the segment of a shorter time horizon to retirement and have a significant shortfall towards reaching their goal. This creates a sense of urgency in which the financial advisor, planner and the client may need to consider a different investment strategy or a change in their retirement expectations.

Such prescriptive insight could also draw on data based on what others within the same peer segment are doing and provide probabilistic analysis on which course of action clients should take. Ultimately, there is no shortage of applications that would create value for clients – and as firms provide increasing value, so too does the stickiness of clients.

The application of prescriptive analytics can, of course, extend beyond financial planning. Through prescriptive analytics, firms have the ability to establish a deeper understanding of their clients and their preferences and behaviours. With firms choosing to include psychological data points (i.e. behavioral analytics), digital tools can not only provide advisors with the right nudges, but also the right messaging to best reach and engage with their clients. And of course, the development of a psychological profile can extend to better understanding and meeting insurance needs, estate planning, and banking requirements.

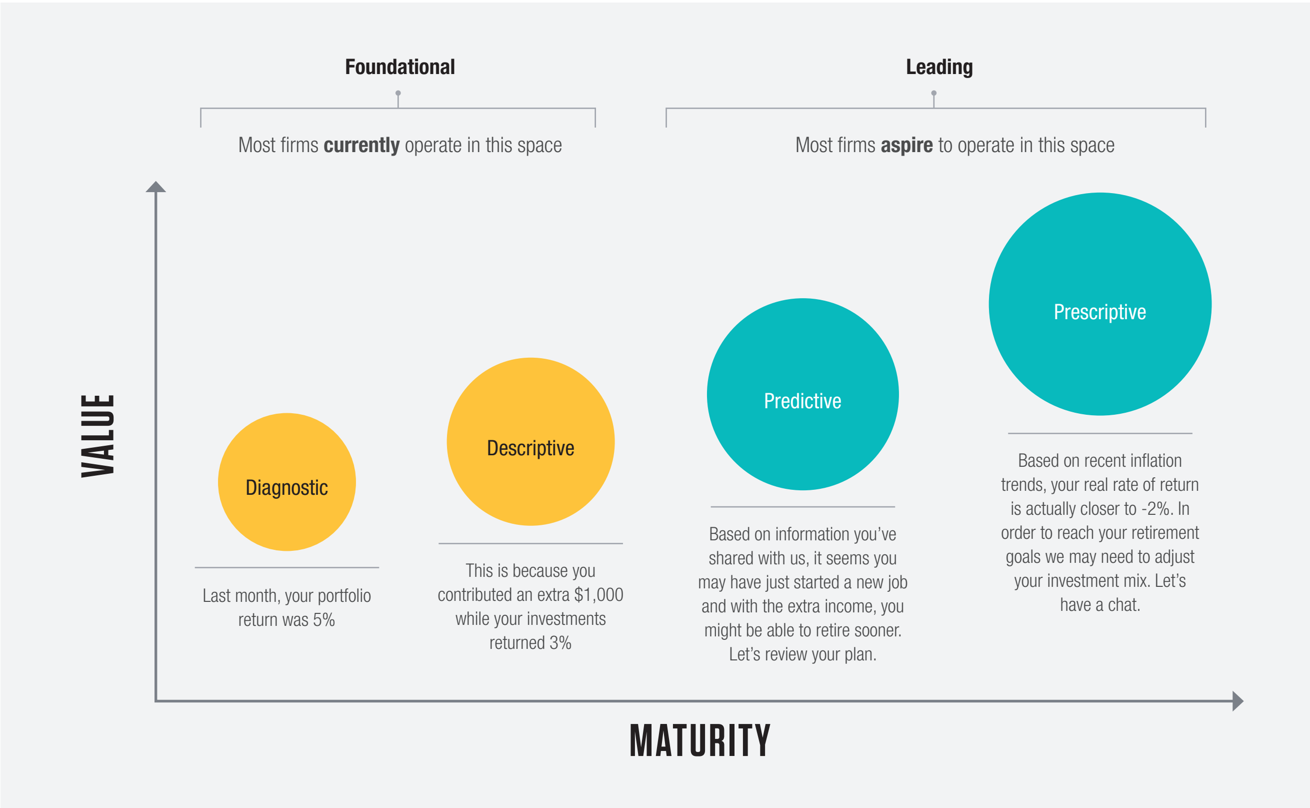
Tying it all Together – An Illustration

As a journey through the maturity of data and analytics, we can illustrate how firms can harness data to empower advisors and improve Client / Advisor relationships through what could be a typical scenario:

Lisa is a seasoned Financial Advisor and James is a 45-year-old entrepreneur who has been with Lisa for the past decade.

James owns a small business and has done well for himself, through his online ad agency. Given James' fluctuating income, it's important that he has a trackable financial plan that allows him to meet his personal and financial objectives, while providing the flexibility needed to enjoy life. A key focal point for James is retiring by the time he reaches 55, 10 years earlier than the norm. As a result, it is imperative that he, along with Lisa's support, tracks to his retirement goals.

Historically, Lisa would use her expertise to manually create and upon bigger changes, update James' financial plan. With her firm's increasing investments in analytics, Lisa and James are seeing the benefits accumulate over time as the firm's maturity grows.



There are considerable benefits these insights may provide:

BENEFITS

1. Better Understanding of Customers

- Advisors will have a better understanding of their clients' lifecycles and corresponding changes with less effort, which will enable them to both serve more clients and serve existing clients better
- Proactively recommend actions to ensure clients are tracking to their objectives
- Capture client preferences to both provide more suitable products increase the firm's revenue opportunities through nudges which recommend specific products based on client needs, preferences, habits, and behaviors

2. Improve Client/Advisor Relationships

- Advisors can adapt their approaches as needed, as they can prioritize clients that need to revisit their plans earlier with triggers based on insights
- When needs are met, and clients feel their interests' matter, loyalty and retention increases

3. Achieve Efficiencies

- Workflow management tools, enabled by the right data, can be used to create automatic triggers and recommend manual tasks for advisors to action

- These triggers can leverage social listening and aggregators to capture data from external sources – from a financial planning perspective, this can ensure Advisors are continually up-to-date on KYC updates / changes to financial scenarios which could impact Client financial plans via a much more targeted and timely approach

- Beyond analytics to improve human-decision making, firms can now use data to make data-driven decisions on corporate strategy – improving the effectiveness of their actions by being able to track, monitor, and evaluate prior decisions while simultaneously simulating the expected outcomes of future decisions

Turning Dreams to Reality

In order to prepare for the future, firms must understand where they are in the maturation process and where they want to go.

Most firms have a good grasp of descriptive and diagnostic analyses and the evolution but getting to a more mature analytics capability requires a leap and some fundamental shifts.

1. **Target Operating Model** – Understanding where you are today is the stake in the ground the next question is the destination. What business capabilities need to be enhanced to address the gap between where you are and where you want to be? Which entirely new capability needs to be added? And what are all the technical and data components needed to support the new operating model?

2. **Data Strategy** – Most firms struggle with internal data sources, the quality, accuracy, lineage, and redundancy of the data is so core to advanced analytics that it should be the first thing that is optimized. As the old adage goes, garbage in, garbage out – Getting the data right is a fundamental first step. And while most firms do source data externally, there are duplication and inflated costs associated with multiple data vendors and duplication. Before considering adding new external data, it's necessary to have an external data strategy that augments a rationalized data set that supports the new way of working i.e. the new operating model.

No matter where a firm is, there's work to be done to help usher in the next generation of financial planning to increase client confidence that they will realize their financial dreams. When clients know their interests are well looked after, they can get back to well, living their lives.

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ABOUT CAPCO

Capco, a Wipro company, is a global technology and management consultancy specializing in driving digital transformation in the financial services industry. With a growing client portfolio comprising of over 100 global organizations, Capco operates at the intersection of business and technology by combining innovative thinking with unrivalled industry knowledge to deliver end-to-end data-driven solutions and fast-track digital initiatives for banking and payments, capital markets, wealth and asset management, insurance, and the energy sector. Capco's cutting-edge ingenuity is brought to life through its Innovation Labs and award-winning Be Yourself At Work culture and diverse talent.

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