

Engaging customers using their goals

A ROADMAP



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Regulations are being re-written, entrenched business models are collapsing, and clients are pulling their money from once trusted institutions.

The industry needs to move closer to the motivations of customers—the things they want to achieve in the future—and away from the things the industry historically focusses almost exclusively on finances and financial products.

Enter goals-based advice.

The financial advice industry’s roots began more than a hundred years ago when door-to-door salespeople would earn hefty commissions selling life insurance.

Today, financial advice has become far more holistic and sets the financial foundation to help Australians achieve the lives they want.

But the past still echoes loudly, and the reality is the advice industry remains trapped somewhere between these two disparate worlds.

The Royal Commission into Financial Services Misconduct¹ exposed just how wide the gap is, prompting governments, regulators and consumers to act. Regulations are being re-written, entrenched business models are collapsing, and clients are pulling their money from once trusted institutions.

To close the gap the industry needs to move closer to the motivations of customers – the things they want to achieve in the future – and away from the things the industry historically focusses almost exclusively on – finances and financial products.

Enter goals-based advice.

Is it the new saviour of the industry or have advisers been doing it for years? Can it work with traditional advice compliance regimes or should it replace them altogether? Does the technology exist to support goals-based advice or is it years away?

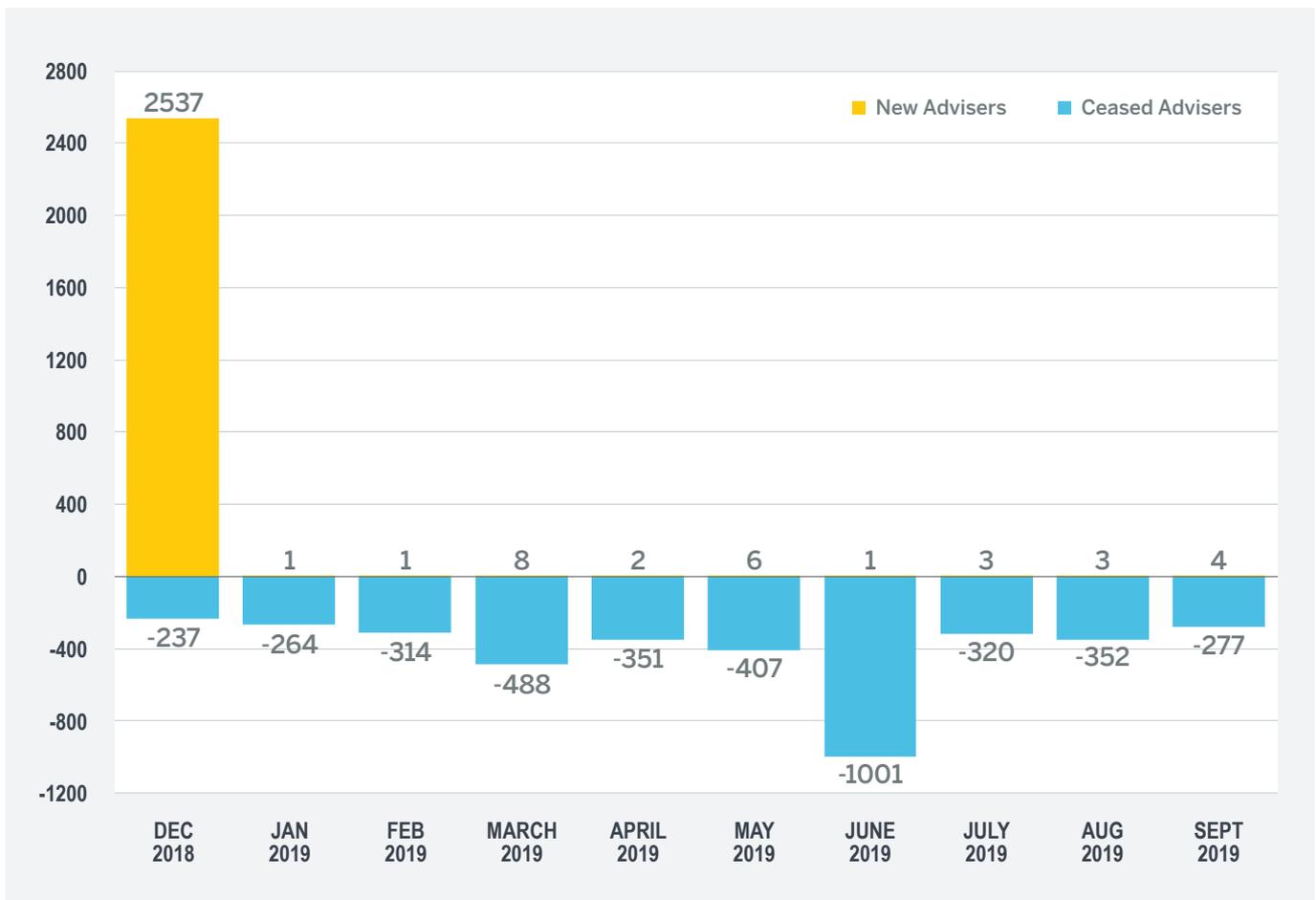
These are the issues the financial advice industry continues to grapple with as it attempts to adapt to this new world. This report explores the answers to those questions and serves as a guide to help those forward-thinking businesses who are forging a new path.

TRADITIONAL FINANCIAL ADVICE IS UNDER THREAT – NOW WHAT?

The Royal Commission’s final report, released in February 2019, brought many contentious advice issues to a head. While its recommendations were far from radical, it prompted many major incumbents to scale back or depart the financial advice industry.

Meanwhile the profitability of many advice businesses has plummeted as common remuneration models, such as legacy grandfathered commissions, are banned. Future profitability is less certain with the introduction of an annual opt-in requirement for advice clients.

Figure 1: New and ceased advisers



Source: Adviser Ratings: [Adviser Musical Chairs Report Industry research](#)

The total number of advisers across the industry is falling as licensing and education requirements become more onerous, while the proportion of self-licensed advisers continues to grow.

A newly-invigorated prudential regulator is enforcing legislation more strongly than ever, leaving advisers and firms questioning whether they are doing enough to satisfy requirements such as the best interests duty.

This increased scrutiny on the impact of advice is also affecting institutions such as super funds. APRA's SPS 515 Strategic Planning and Member Outcomes² standard and the focus on promoting relative performance are also forcing funds to consider their decisions in a new light.

There is little doubt that the era of traditional financial advice is drawing to a close, despite the good intentions of many advisers and institutions.

To take the next step, we have to understand what consumers need.

WHAT ARE THE CORE NEEDS OF CONSUMERS SEEKING FINANCIAL ADVICE?

While consumers have diverse financial and lifestyle goals, they have three things in common in their need for financial advice:



TRUST
a genuine relationship to underpin lasting change



ENGAGEMENT
connection with their individual circumstances



IMMEDIACY
practical solutions straight away

TRUST IS MORE IMPORTANT THAN EVER

People intuitively understand the importance of properly managing their financial affairs, but innate behavioural biases regularly derail their efforts.

Advisers are perfectly placed to develop the ongoing trust – combined with consistent messaging and engaging financial information – that can change people's lives for the better. Trusted relationships enable advisers to help clients' balance out emotion, cognitive biases and rational financial decisions, which can otherwise make sustained behavioural change difficult.

In the same way that a personal trainer can help people achieve their health and fitness goals faster and stay on track, a financial adviser can have a positive impact on people's lifestyle goals.

ENGAGE PEOPLE WITH THEIR FINANCIAL FUTURES

Financial advice isn't solely about money – it's about giving customers the ability to live the life they want.

Despite the best efforts of many advisers and firms, traditional advice is all too often still mired in product sales and compliance-focused systems.

We talk in the language of the industry about things that matter to the industry: fees, investment returns, investment products, and risk tolerance, rather than the things that matter to customers.

Good advice engages customers by building the bridge between these financial foundations, and the lifestyle that customers want.

In the digital world, consumers demand an experience which is customised specifically to them. Recommendations based on simple rules of thumb ("you are a balanced investor") appear shallow in a landscape of instant, customised recommendations based on an individual's specific wants.

FINANCIAL ANALYSIS NEEDS TO PROVIDE ANSWERS NOW

Technology has brought vast amounts of information to the masses, which has changed expectations. Our collective attention spans have narrowed, not only on social media, but across diverse domains including books, web searches, movies and more, according to one recent study.³

Customers seeking financial advice are no different. They expect answers instantaneously in our 'always on' society.

The historic advice model has taken the opposite approach: initial meeting, back office analysis, next meeting, more back office analysis, documentation on recommendation, execution. This lengthy, high-cost approach will rapidly become uneconomic except for the wealthiest high-net-worth customers. Even for them, it's likely to hold minimal appeal.

The barriers to implementing digital timescales are set to recede as regulators encourage shorter, interactive and more effective disclosures rather than traditional long documents filled with fine print. This increase in efficiency will also free up advisers and paraplanners to focus on the higher value aspects of their client work, and allow service to be provided to clients who would otherwise be economically unviable using legacy advice processes.

TOWARDS TRUE GOALS-BASED ADVICE

Goals-based advice provides a framework to help customers satisfy their core needs by achieving and managing the risk of meeting their quantifiable future goals.

It sounds simple but represents a sizeable shift for the industry.

Most advisers argue that assessing customer objectives already is a core part of their conversations and recommendations. The problem is that legacy technology

and compliance-led systems have held back the impact of true goals-based advice by:

- not measuring the ability to achieve a customer's goals and the associated risks of achieving those goals, and
- not using those measurements to determine strategies, products and advice suitable for that customer, then tracking and continually engaging with them using those measures.

One way to consider these existing approaches is to think of them as goal-aspirational, rather than truly goals-based.

This goals-aspirational approach is better than not taking goals into account. But if subsequent advice and ongoing communications don't directly support a customer's evolving goals, trust can rapidly deteriorate when expectations aren't met.

The need to accurately measure and manage the ability to achieve lifestyle goals sits at the core of any goals-based advice approach.

TECHNOLOGY CAN TURN A LIFESTYLE CONVERSATION INTO A FINANCIAL FOUNDATION

A genuinely goals-based approach to advice allows firms and their customers to have a "non-financial" discussion about their lifestyles, hopes, dreams and aspirations. In the background, smart algorithms can convert this real-world conversation into robust, quantifiable, measurable and actionable financial scenarios.

For example, most people have a strong natural preference for short-term over longer-term outcomes, which often leads to poorer decisions. This tendency makes them choose a smaller-but-sooner reward over a larger-but-later reward, even where this may not be in a person's best interests.

One solution to this problem is to change the conversation from a financial one ("you need this much money when you retire") to a lifestyle one ("you need to do this to ensure that you can live like that").

We all make lifestyle decisions every day, so the natural preference to defer decisions about the future can be mitigated by making the conversation about our present self, rather than some hypothetical set of choices and finances relating to a distant future self.

GOALS-BASED ADVICE REQUIRES THE ABILITY TO PROCESS AND COMMUNICATE COMPLEX CALCULATIONS AND LIFESTYLE TRADE-OFFS

Just like our lives, personal finances are often complex and contradictory.

The impact of advice and financial decisions are nuanced, subject to chance, and can lead to unexpected interactions. Unforeseen events are a source of considerable risk to personal finances.

As we've seen recently through the Royal Commission, failing to understand, discuss and manage these impacts can lead to unhappy customers, regulatory breaches, and eventually can destroy value previously created within an advice business.

Meaningful goals-based advice needs algorithmic analysis to process the comprehensive risks and consequences of these interactions and the trade-offs that arise when making decisions.

For this to be engaging and useful – both to advisers and customers – it needs to happen instantly and be simply and clearly communicated. Choosing an appropriate goal measurement system is crucial to ensuring this can happen.

Conversations about goals need to happen consistently and proactively, particularly when something material changes. These interactions can be digital – a push notification, an email, or an online portal alert. They could also occur at a face-to-face meeting or a phone conversation prompted by an adviser.

FROM CONCEPT TO APPLICATION

Milliman has worked with a range of large and small financial institutions who have implemented our GBA Platform to power their own goals-based advice processes and applications. This work has given us a deep knowledge of common processes and pitfalls to avoid on the journey towards true goals-based advice.

We believe the steps to successfully implement goals-based advice applications are to:

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| <p>1</p> <p>IDENTIFY THE PURPOSE</p> | <p>Identify precisely what our goals-based advice application is trying to achieve. This is critical to ensuring that the user experience and associated analytics are fit for purpose. For example, this might include one or more of the following aims:</p> <ul style="list-style-type: none"> • To generate leads / sales opportunities • To better engage customers with their finances • To support best interest obligations • To demonstrate the impact of specific products or strategies • To help formulate better advice strategies for an individual • To support ongoing tracking and monitoring |
| <p>2</p> <p>DEFINE CUSTOMER CONVERSATIONS</p> | <p>As with most good user experiences, goals-based advice applications should be designed around the conversations that an institution wants to have with its customers. Clearly defining these enables a natural, human flow to any application – key when seeking to engage a customer using their lifestyle goals.</p> <p>These will depend on the purpose of the application, the parties involved (for example whether direct-to-consumer, or adviser-driven), the decisions we want the customer to take, and the type of information to be communicated to (or received by) the customer.</p> |
| <p>3</p> <p>DEVELOP CALCULATION CONCEPT</p> | <p>Depending on the nature of the problem, a clear goal measurement system needs to be established to support conversations.</p> <p>When focused on customer goals, this should support the ability to communicate and enable decision-making that affects those goals. This requires a deep understanding of the calculations and context.</p> <p>For example, we might need consistent measures and communication across differing goal types. This makes it easier for clients to make clear comparisons – and any necessary trade-off decisions – between otherwise incomparable goals.</p> <p>Typically this might include measurements of success and risk; allow for the factors that affect customer outcomes; demonstrate trade-offs that might need to be made; and allow for any regulatory and compliance needs.</p> <p>By separating the algorithmic concept (and indeed, the execution of calculations) from the application itself, we have found that changes in scope, approach and presentation layer can be made more quickly, allowing faster iteration and better end-user outcomes.</p> |
| <p>4</p> <p>TEST CONCEPTS</p> | <p>Clever calculation concepts and slick communication often sound good on paper, but fail when confronted by real users.</p> <p>Often, this is simply a problem of perspective – those developing the applications inevitably have a very different mindset and experience from users. Seemingly obvious solutions (“let’s add a chart here to show performance over time”) may not be nearly as obvious to your users.</p> <p>Likely users (advisers and end consumers) should test calculation and communication concepts. This can help understand whether they resonate, whether they support the required conversations, and whether they achieve the purpose of the tool.</p> |
| <p>5</p> <p>PRIORITISE, DEVELOP, REFINE</p> | <p>Execution of end user applications is often considered as a once off “project” – design, build and deploy.</p> <p>Successful applications inevitably involve much more – regular monitoring, measurement, and testing of their value and usage. This enables iteration, refinement and capture of the genuine value to be generated by engaging customers using their goals.</p> |

THE MILLIMAN APPROACH

Milliman is among the world's largest providers of actuarial, risk management, and related technology and data solutions. Our consulting and advanced analytics capabilities encompass many industries, from financial services to life insurance and health care. As actuaries, we manage risks associated with future uncertainty including financial, demographic and behavioural.

Our early work in the Australian market involved developing a broad range of innovative retirement products, which taught us that you can have the best products in the world, but if they don't resonate with customers, and they don't fit into distribution systems, then they won't be successful.

This thinking led us to work with advice and other financial services businesses to better understand and improve the way in which people are being engaged, advised on, and interact with financial products.

We have reviewed, audited, designed, road-tested and built a range of technologies that improve consumer experiences and meet unmet needs.

This knowledge and global resources led to us building the Milliman GBA Platform. Today it is used to power real-time, goals-based advice experiences and cutting-edge analytics in organisations of all sizes.

We took this path because we believe that by focusing on our core algorithmic capability, we can free technology builders, advice firms and product providers to develop even better customer-facing solutions.

These unique applications fundamentally change conversations from being about financial things, to being about people. This capability is available now.

To find out more about how we can help your organisation better engage with its customers, contact us for more information.

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