

How to profit from customer-centricity in the Mass Affluent investment market



Mass Affluent households are defined as those with investable assets of €150k to €750K.

Regulation is aiming at creating a market for fee-based investment advice.

EXECUTIVE SUMMARY

The Profit Opportunity

The Mass Affluent segment offers strong profit potential. Mass Affluent households are defined as those with investable assets of €150k to €750K. They represent about 10 to 15 % of the population and they own from about half to two thirds of all investable assets in a given market. Their use of financial services in general is significantly above average.

However, certainly when it comes to investment advice, relatively few service providers have made a specific and successful approach to Mass Affluents. Such customers often fall through the gap between private banking and general retail banking. Private bankers consider the cost of servicing Mass Affluents too high and retail bankers usually do not have the sufficient skills to meet the needs of Mass Affluents.

Solid, ongoing, customer-centric investment advice (possibly fee-based) has a highly rational and emotional value for Mass Affluents. It can strongly increase their willingness to pool more of their investments, as well as other financial services, with the provider of the advice. That increases their profitability by a significant factor.

In the EU, a further trigger for this opportunity will be the introduction of MiFID II, which seeks to ban commissions from selling investment products. Regulation is aiming at creating a market for fee-based investment advice.

The Challenge for the Provider

The challenge is to deploy an investment advice service that meets the following criteria:

1. Is really customer-centric, i.e. starts from the customers' goals and can be applied throughout the relationship
2. Can be delivered by selected employees, who can become "specialized staff" with limited training, within the retail branch network
3. Does not require too much people time.

These criteria can be achieved by combining much improved customer insights with a focus on enabling technology (for a balance between personal contact and "automation").

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EXECUTIVE SUMMARY (CONT.)

Improving Customer Insights: Expand Classic Risk Profiling to Multi-Dimensional Goals-Based Risk Profiling

Classic risk profiling is concerned with only the **level** of risk a client wants to take. Risk level is an important element (and a MiFID I compliance matter in the EU) but, alone, it is not enough. Classic risk profiling does not factor in which **type** of goal the customer pursuing. It does not allow for the fact that he/she might be pursuing **more than one goal**.

All investor goals can be plotted somewhere on the axis which goes from Protecting Capital to Obtaining a Steady Revenue Stream. These goals are very different things, leading to a very different **type of risk**, though the **level of risk** acceptable may be the same. A customer can have multiple goals, to which different levels of risks and types of risks can be desired.

This expanded Goals-Based Risk Profiling can be carried out during the initial client conversation, guided by a simple questionnaire. Results of the questionnaire need to be stored.

Map All Investment Products on the Multi-Dimensional Goals- Based Risk Space

A basic approach, mapping most existing investment products (bonds, equities, term deposits, investment funds and so on) onto this Multi-dimensional Goals-Based Risk Profile is already on the market. It gives a classification of all the investment products a provider may want to include in its investment advice service. This classification maps products using the same 2-dimensional method as customers. Providers may also choose to have their asset/portfolio managers structure their own fund solutions in line with this approach.

Technology in Support of Customer Centricity, Customer Relationships, Low Cost Delivery and Monitoring Compliance Requirements

The system then matches which investment products would best suit what the customer is after. It will allow the relationship manager to give the customer, at the end of the first interview, a proposal listing the options. The proposal will clearly indicate how each recommendation supports a particular investment objective.

The provider can proactively contact the customer if/when circumstances change and a portfolio amendment is advisable. Likewise, if the customer wants to change his/her details or objectives he/she can notify the bank quickly and simply to make the necessary changes.

At all times, the provider has a full overview of what has been offered to customers and why. The provider also decides on the degree of decentralization/centralization by deciding which investment products will be included in the central mapping database of investment products.

Implementation Planning

The Mass Affluent sector breaks down into many sub-segments and is far from being a homogenous market. The following paper also looks into the use of big data techniques to identify potentially Mass Affluent customers within databases.

The paper does describe what the authors believe to be very essential building blocks in building a strategy for the Mass Affluent.

In this publication the authors do not deal with other key implementation actions that are needed to tap the considerable potential of the Mass Affluent market.

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The Opportunity

MASS AFFLUENTS ARE INVESTORS IN NO MAN'S LAND

If, like most people, you earn a modest but dependable income, there are dozens of high street banks and online service providers fighting to give you investment advice. Similarly if you're a high net worth individual with over €1M to invest, you can take your pick from a number of private banks who will roll out the red carpet and meet your every investment whim. But if you're a Mass Affluent, with say €350,000 to invest, you might be surprised to find that – as far as the industry is concerned – you're Mr or Mrs Nobody.

Private bankers will turn you away because your assets are too small to cover the cost of servicing you. You're not worth their lavish care and attention. Depending on your market, high street banks may be delighted to see you, and even summon a specialist to sell you the Product of the Month – taking a **commission** for their pains. At best, you end up with a one-size-fits-all product approach that completely overlooks your specific requirements.



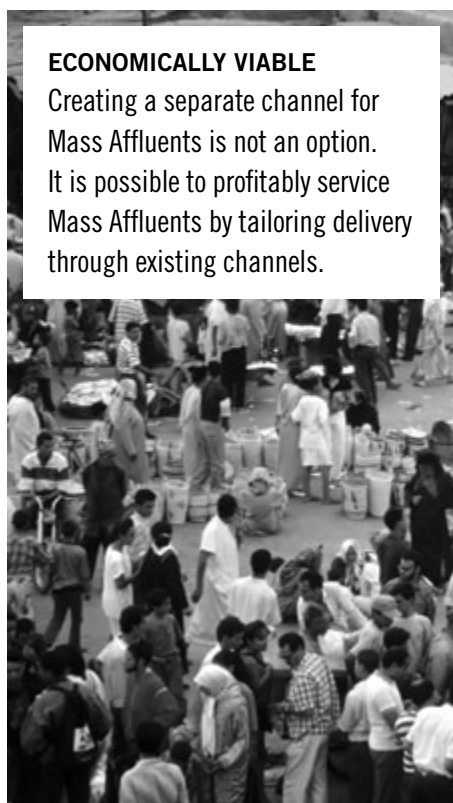
COMMISSION IS BEING KILLED OFF

Retail financial institutions will need to replace it with fee-based revenue streams. Mass Affluents may be the only customers that make it worth their while.

GIVE MASS AFFLUENT INVESTORS A PLACE TO CALL HOME

ECONOMICALLY VIABLE

Creating a separate channel for Mass Affluents is not an option. It is possible to profitably service Mass Affluents by tailoring delivery through existing channels.



So as they struggle to find the perfect place to invest their money, Mass Affluents tend to spread it across several less-than-perfect places. Most Mass Affluent customers have split their investments across two or more financial service providers. Or, every couple of years, they drift from one provider to the next. Some simply remain liquid. In each of these scenarios they find that their objectives are not being met and as time goes by, they have less and less faith in the investment industry as a whole.

There is a significant opportunity for financial retailers who are able to capture Mass Affluents in an **economically viable** way. They will gain:

- Directly, by persuading Mass Affluents to pool the majority if not all their investments with one provider and collecting recurrent fees for advice.
- Indirectly, by loyalising them for the routine financial services which tend to be seen as a commodity.
- From word-of-mouth. Happy customers are more inclined to recommend a financial institution to their friends, which in a reputation-based industry can quickly translate into new business.

The opportunities and rewards are clear. Let's look at timing.

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The Urgency

THE IMPACT OF REGULATION ON INVESTMENT ADVICE

The industry has allowed consumers to believe that advice is a free part of the service; fees are hidden within investments or via indirect payment channels. For the first time it will be abundantly clear to consumers whom and how much they are paying, directly or indirectly, for advice. Anyone selling financial services in Europe will have to earn their keep like never before.

Good advice will be a visible and valuable product; consumers will differentiate according to quality, price and other parameters. A

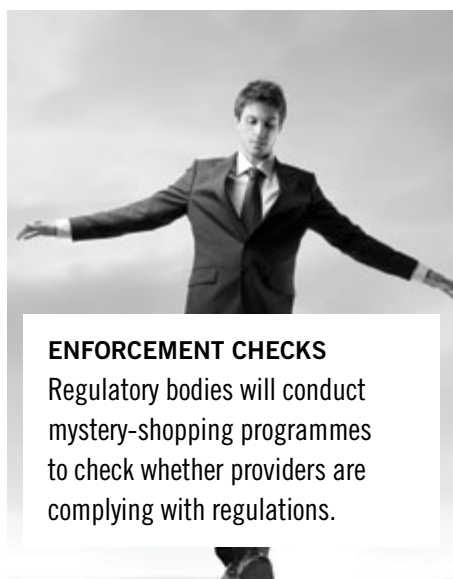
lack of willingness to pay for advice is anticipated from many segments; some financial institutions have already significantly scaled down investment units. If providers are to replace commission revenue with that from fee-based investment advice services, they need to focus on lucrative segments, i.e. those who are likely (willing and able) to pay a fee for advice. This means looking urgently at exactly what kind of investment advice Mass Affluents want.

EU AND BEYOND

Countries inside and outside the EU have already implemented new regulation: UK, the Netherlands, Denmark, Finland, Australia and India.

WHO WILL BUY ADVICE?

Mass Affluents are more likely than most to understand the need for quality advice and are more able to pay handsomely for it.



ENFORCEMENT CHECKS

Regulatory bodies will conduct mystery-shopping programmes to check whether providers are complying with regulations.

REGAIN INVESTORS' TRUST

Mass Affluents are inherently suspicious but the financial crisis has made them lose trust altogether. Many no longer even take advice. By embracing the letter and the spirit of regulation, providers can begin to repair the damage to their reputation and revenue streams.

OBEYING THE LETTER OF THE LAW

Essentially Brussels wants financial providers to link money made to services rendered. Specific directives are:

MiFID-1 and MiFID-2

- Forces the industry to demonstrably act in the interest of their clients.
- Creates a fee-based investment advisory market and an 'advice innovation' marketplace.
- Investment advice is to be considered as a billable service to the end-client/investor.
- Commissions received by retailers are to be made transparent and can be banned.

UCITS IV

- Dramatically increases transparency and comparability of investment funds.
- EU funds are to be distributed across the EU as a single market, increasing comparability.
- Increased requirement for fund information documentation allowing performance tracking.

IMD-2/PRIPS

- Increased transparency on commissions and other payments to life insurance intermediaries.

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The Urgency (cont.)

ACTING IN THE SPIRIT OF THE LAW

Financial providers who can demonstrate that they have customer interests at the heart of their business will win regulatory and consumer favour. The UK's Financial Conduct Authority uses six outcomes as standards to guide regulatory decisions and actions. These represent the aims of regulators and consumers everywhere:

- **Outcome 1:** The fair treatment of customers is central to the corporate culture.
- **Outcome 2:** Products and services are designed to meet the needs of identified consumer groups and are targeted accordingly.
- **Outcome 3:** Consumers are given clear information and kept appropriately informed before, during and after the point of sale.
- **Outcome 4:** Where consumers receive advice, the advice is suitable and takes account of their circumstances.
- **Outcome 5:** Products perform as providers have led consumers to expect; service is of the standard they have been led to expect.
- **Outcome 6:** No unreasonable barriers to changing products, switching providers, submitting claims or making complaints.

MANAGEMENT INFORMATION

The UK's Financial Conduct Authority has also published a guide to help firms develop indicators for measuring the fair treatment of customers: [Treating Customers Fairly: Guide to Management Information](#)



In order to bring home the Mass Affluent money, before the last commission-based revenue stream dries up, urgent changes are required. It won't be easy but the steps forward are clear. First let's examine the nature of the challenges involved.

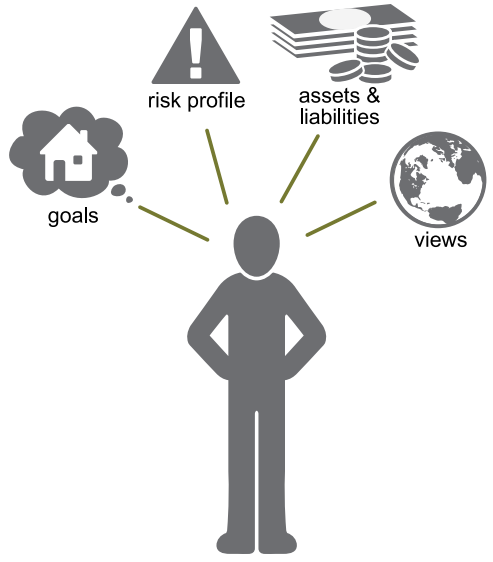
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The Challenge

The Mass Affluent opportunity is sizeable and has long been on the radar for financial retailers. However, very few providers have so far addressed Mass Affluents' investment advice needs. For this some change is required. This section unravels the specific challenges involved, identifying five mismatches between the needs of the Mass Affluent and the nature of the financial services industry:

- **Mismatch 1:** Customer Understanding
- **Mismatch 2:** Definition of Goals
- **Mismatch 3:** Type of Risk
- **Mismatch 4:** Multiple Risks
- **Mismatch 5:** Service Expectations



MISMATCH 1. UNDERSTANDING

Mass Affluents are a diverse group with many sub-segments

Financial services view Mass Affluents as a single group

While everyone knows Mass Affluents exist, it isn't easy to find them within a financial retailer's customer base.

Because few institutions cater properly for them, Mass Affluents tend to spread their money over various institutions. Each of these individuals is in the Mass Affluent category based on investable assets, but the solutions required for each of them will be drastically different. Just imagine the differences in mindset of these randomly selected Mass Affluents:

- A mid-30s couple wanting to invest money for their children's education.
- The well-paid DINK family (Double Income No Kids) who want to invest for a holiday property.
- A 39-year old high-flying professional female who wants to fund a switch to a lower paid job.

- A 45-year old manager who realizes he won't be ready for retirement, and wants to push what he has as far as possible.
- A 46-year old civil servant who suddenly came into an inheritance and wants to finance the purchase of a house in the South of France.
- A 55-year old company owner who's just sold his small business and wants to park his assets safely while he starts a new venture.
- A 65-year old widower who received a lump sum pension plan payment and wants a stable monthly income flow from it.
- A retired couple who are downsizing their property and want to invest the profit to fund retirement and plan their legacy.

NOT YOUR AVERAGE INVESTOR
Banks are set up to deal with average investors. Mass Affluents have several characteristics that clearly set them apart from the rest of the market.

The examples used in this paper aim to be representative not exhaustive. There are many different types of Mass Affluent customers each with a huge variety of objectives.

Financial retailers typically fall short on segmentation tools and skills. Too often they rely on traditional segmentation measures like age, gender, occupation or education. These can be

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The Challenge (cont.)

informative, but don't say much about the different needs and behaviours of each customer. As a result, product definitions are too generic to connect to deeper customer insights and the content of all communication is too broad to be meaningful. Front desk colleagues lack the appropriate tools and models to effectively profile customers. This lack of insight leaves Mass Affluents with a deeply unsatisfying one-size-fits-all solution.

NOT YOUR AVERAGE INVESTOR

Though it is possible to classify Mass Affluents based on investable assets or age (70-80% are over 50), their goals, beliefs, self-image, attitudes and channel preferences vary widely.

MISMATCH 2. GOALS

Mass Affluents invest with a variety of specific goals in mind

The industry hardly sees beyond the goal of wealth accumulation

Financial markets focus on relative performance, developing ever more sophisticated products to beat self-selected benchmarks. But for Mass Affluents these are not the main drivers; neither is wealth accumulation the sole objective of their investments. Mass Affluents have one or more specific purposes in mind for each investment. Think of:

- The 65-year old who wants a nice reliable income stream to fund a comfortable retirement lifestyle.
- The 50-year old who has just inherited some money and wants to grow it to repay his mortgage early.
- The 30-year old new parents who want to invest to provide enough for their children's university fees.

For the Mass Affluent, it is the purpose of an investment that drives their decisions as well as their overall investment behaviour. Understandably then, Mass Affluents want advice that starts with their end goals in mind. Typically however, high street banks do not have the incentive, time, skills or tools to discuss or capture customer goals profitably. Their historical focus on selling the product that will bring in the highest commission simply eliminates the need for any kind of two-way conversation. Even the specialist 'advisors' shipped in from head office to service Mass Affluent investors are often trained to push the 'product of the month' and sell at the highest margin.

ADVICE INNOVATION

The introduction of MiFID2 will make listening-based advice services an imperative for revenue generation from investment. Those providers who can offer the best goal-based advice for Mass Affluents will suffer less from the loss of commissions.





The Challenge (cont.)

MISMATCH 3: TYPE OF RISK

Mass Affluents need to go beyond 'level of risk'

Financial services deal only with 'level of risk'

Historically, investment professionals have defined the appetite for investment risk as low, medium, high – or anything in between. This defines the level of risk someone is willing to take. But research¹ has shown that for up to two-thirds of Mass Affluents, life isn't so one-dimensional. Let's look in more detail at these examples:

- Herr Schumacher and Monsieur Dumas are both 48 years old. Each has €400K to invest.
- Herr Schumacher is stepping out of the career rat race to take a quieter job. He wants a steady monthly cash flow from his investment to support his lifestyle until the age of 60. Monsieur Dumas has 12 years to go on his mortgage. He has inherited his €400K and knows that if he invests it wisely, at medium risk, he can watch the capital grow over 10 years enough to repay the loan on his house. Neither of them wants high risk; medium risk is acceptable.
- Herr Schumacher wants a nice steady income stream that allows him to maintain a comfortable retirement lifestyle. He is less concerned about what happens to his capital.
- Monsieur Dumas however needs to protect his capital above all else and is not interested in a steady income stream.

So while both these Mass Affluent investors have the same risk tolerance and the same amount to invest, they actually need very different investment solutions. But under the current

LEVEL OF RISK IS NOT ENOUGH
 Because Mass Affluents invest with a purpose they have clear views about the type of return they want and therefore the type of risk they need to consider. Some will want to protect their capital at all costs, but others are looking for a steady income stream. This is an industry blind spot.

one-dimensional approach to risk, both these customers would be simply classed as medium risk.

However the equally (if not more) informative dimension – the type of risk – would be substantially different for each man. One is concerned with getting a steady income stream; the other needs to protect his capital. As with all Mass Affluent investors, the type of risk they are willing to take varies according to specific investment objectives.

Systems and staff are currently unable to recognise and differentiate along a second dimension: type of risk. Most financial retailers focus exclusively on the level of risk which is sufficient for fulfilling the requirements of MIFID-1. This is why today's

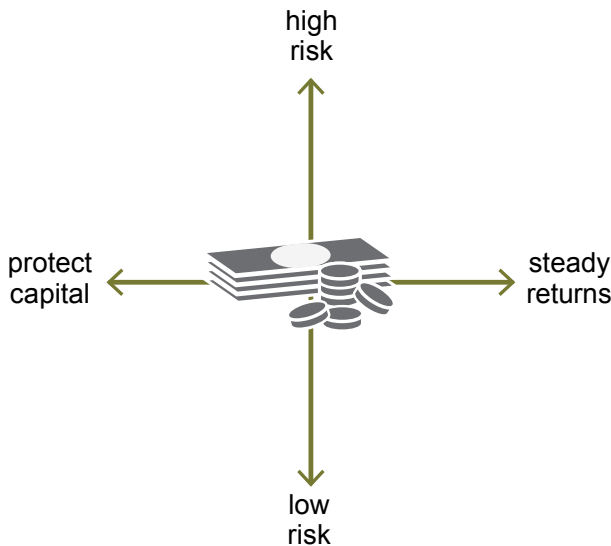


FIG 1. GOAL-BASED RISK PROFILING: IN ADDITION TO THE LEVEL OF RISK (VERTICAL AXIS), MASS AFFLUENT INVESTORS ALSO WANT THE TYPE OF RISK THEY RUN (HORIZONTAL AXIS) TO BE TAKEN INTO ACCOUNT

¹ Gambit Financial Solutions Research, 2013

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The Challenge (cont.)

investment solutions are organized on an axis ranging from defensive/low risk to dynamic/high risk. But only with two-dimensional risk profiling – **Goal-Based Risk Profiling** – can banks truly serve the needs of the Mass Affluent investor.

GOAL-BASED RISK PROFILING

Without two-dimensional risk profiles banks cannot serve the needs of the Mass Affluent. This capability is actually within easy reach of most providers.

MISMATCH 4: MULTIPLE RISK PROFILES

The Mass Affluent customer needs more than one risk profile

Banking systems deal with only one risk profile per customer

The relative wealth of Mass Affluents means that they typically have more assets and liabilities to consider than the average high street customer. These may include mortgages, stock options, car loans, plans for their daughter’s wedding, college fees and so on. Because each investment has a different objective, the level of acceptable risk for each investment is likely to be different.

Imagine the hypothetical Frau Hoffman, a 58-year old Austrian entrepreneur with €450,000 to invest. Having just taken early retirement, she has a clear set of goals and is looking to invest in several ways:

- **Goal 1:** First of all, when turning 65, no matter what, she will have to make a one-off payment of €175,000 to pay off the mortgage on her house: **low** risk, **low** potential return and a **high degree of protection** for her capital.
- **Goal 2:** Then, as life is more expensive than she originally anticipated, she realizes she will need an **incremental income** stream of about €400 per month for the next few years. This means she would like to allocate €100,000 to investments at **medium** risk level that are focused on providing this **steady** income stream.

INTEGRATED VIEW

Mass Affluents consider each investment decision within the context of their whole portfolio: no decisions are taken in isolation. This has implications for IT and employee training.

- **Goal 3:** With the first two investments she has actually secured her revenue stream for what she ‘needs’. With the next €125,000 she would like to build some more asset value for her children. At some risk and with as **much guarantee as possible on the original capital**, (she knows her children will need it) she makes investments with a **moderate** risk and some form of **capital protection**.
- **Goal 4:** The remaining €50,000 is for ‘play’: **high risk/high** potential return. If these risks work out, she would be able to purchase her dream €75,000 vintage car. If not, too bad.

Multiple goals are considered in parallel and each goal carries a different tolerance to risk in terms of level and type. This means Frau Hoffman, like most Mass Affluents, needs her bank to hold multiple risk profiles for her – one overall one and one for each of her goals. However most financial retail information systems are only capable of handling one risk profile per customer. As a result, most customers receive ‘averaged’ product recommendations, which might happen to correspond to a specific goal, but might not. This can leave the Mass Affluent overinvested in one category, bricks and mortar for example, and underinvested in others. Some key elements and goals may be missed altogether.

Because they are limited to single risk profiles, financial service providers are missing out on the opportunity of creating a tailored portfolio that meets the Mass Affluent’s needs. This issue is especially relevant for the higher end of the Mass Affluent spectrum (more money to play with equals more goals to plan around) and so the missed opportunity is even greater.



The Challenge (cont.)

MISMATCH 5: COMMUNICATIONS EXPECTATIONS

Mass Affluents want a fluid exchange of information

Banks are not set up for responsiveness or proactivity

Mass Affluents expect their views on investing, business and society in general to be **taken into account** when it comes to the way their money is managed. Mass Affluents tend to be tech savvy and collect information via the Internet, in the press and through social networks. They expect their knowledge and opinions to play a part in building their ideal portfolio. If they believe in gold, distrust Mediterranean bonds and bet on the future of Facebook, for example, they want to see this reflected in their investments. They expect providers to **listen** to them.

Because of their life experience and education, Mass Affluents are used to being **well informed**. They want to be kept in the loop by providers – via the channels of their preference. They want to be **proactively** informed about any change that could affect the attainment of their goals. When their personal circumstances change, they want a way of contacting their provider simply and quickly. They want access to information, options and advice. When the market situation changes, they want proactive advice with clear proposals for appropriate action.

Beyond basic product selection however, high street banks currently have little or no way of customising portfolios based

MORE MONEY THAN MOST BUT NOT RICH

The decision to invest one way or another is a high involvement activity for Mass Affluents. If they get it right, they have a chance of achieving their goals. But if they get it wrong, their net worth (and their dreams) may dwindle as they lose a chunk of the hard-earned assets they have built over their lifetime.

INFORMED OPINIONS

Many Mass Affluents have made their money by working long, hard and smart. Even those Mass Affluents who have inherited their wealth are often well-educated high achievers.

on customer preferences, circumstances and profiles. Even if banks were able to ask about Mass Affluents' views it would be pointless as most providers currently lack the tools to efficiently track portfolio behaviour against these characteristics. Neither do they have sufficiently integrated information, operational or training systems to behave proactively.

SUMMARY

Mass Affluents' spending power and life experience tell them that they deserve to be treated with respect for their achievements, yet they keenly feel that their needs are being ignored by the financial services industry. They are suspicious of and increasingly resistant to the product sales push. When new regulation shines a brighter light on commissions and advisory fees, Mass Affluents will demand to be recognised, understood and serviced. Key requirements will be:

- Tailored, goal-based advice and portfolio management, allowing for goal-based risk profiles and multiple profiles.
- Performance, risk and behaviour tracking updates, proactively provided across channels of their choice.

- Simple tools for self-service such as investment management tools, investment effectiveness calculators and portfolio-building wizards.

The mismatches described here exist right across the financial services industry. Providers clearly do not have the right combination of systems, processes, tools and expertise required to cater for Mass Affluents. But these differences are not irreconcilable; the tools exist, the expertise exists. In terms of commission-based revenue, one door is closing forever in the financial services industry. Mass Affluents represent another door; it's time to push it open.

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The Solution

Provide the investment advice service Mass Affluents need and expect – at a profit

A NEW PERSPECTIVE ON PROFITABILITY

With commission soon to be a thing of the past, new business models must be based on overall customer profitability rather than profit per transaction. The four pillars for that profitability are encouraging Mass Affluents to:

- Pay a monthly, quarterly or annual fee for advice.
- Stay loyal for longer because they are getting high quality tailored investment advice and positive customer experiences.
- Pool more business with one provider, because this is more economical and because total visibility increases the quality of the advice.
- Speak well about their provider to their friends, colleagues and family. In the reputation-driven investment advisory market, this can generate a multiple of the profit yielded by the original customer.

MANAGING COSTS

- Mass Affluents must be serviced via the existing retail distribution network though providers can consider introducing a brand or sub-brand for investment advice services.
- Providers must rely heavily on ICT-driven training, process automation and modelling to keep training and operational costs as low as possible.
- Providers must rely heavily on ICT-driven process automation and modelling to consistently capture all goals in the first customer conversation.
- Providers should investigate whether they could meet the demands of Mass Affluent customers by increasingly offering their own Asset Management funds and rely less on reselling others' funds. Maintaining a wide choice for customers is paramount.





The Solution (cont.)

THE ACTION PLAN

- 1 _ Discover Mass Affluents' Needs and Wants
- 2 _ Develop Risk Profiles in line with Goals
- 3 _ Link Goal-Based Risk Profiles to Investment Products
- 4 _ Create Investment Experiences for Mass Affluents
- 5 _ Focus IT on automation and self-service

ACTION POINT 1: DISCOVER MASS AFFLUENTS' NEEDS AND WANTS

a) Take a big data approach

Some Mass Affluents are easy to identify – from a high balance in their deposit account, or from previous investments. Others will be hidden. Since many Mass Affluents have spread their assets over various institutions, no single provider is likely to have the whole picture. Market research is a blunt instrument in this context: Mass Affluents, and most investors in fact, are unlikely to declare all their assets in a market research situation. Traditional demographics are not enough: a big data approach is required.

Financial services providers have a huge amount of customer data, particularly where the customer holds a current account with a payment card. While respecting individual customer privacy, it is entirely possible to extend the current view of the

customer by assembling all internal and external data, applying big data analysis techniques and profiling the Mass Affluent. Providers can apply this profile to their customer base and find other customers who share Mass Affluent characteristics and who are therefore potentially also Mass Affluent.

b) Overlay qualitative techniques to fully understand Mass Affluents' goals

Combining data-crunching with a qualitative programme of in-branch dialogue, focus groups and customer panels will reveal Mass Affluent investment goals and expectations. This provides a deep and nuanced understanding of the segment. Sub-segment profiles can then be codified in a set of value propositions and targeted solutions.

ACTION POINT 2: DEVELOP RISK PROFILES IN LINE WITH GOALS

a) Adopt Goal-Based Risk Profiling

Providers complying with MiFID-1 have already captured information on the level of risk a customer is willing to accept. Adding a second dimension to each profile to show the type of risk is simply a matter of expansion. This two-dimensional Goal-Based Risk Profiling allows a much more precise mapping of Mass Affluents' goals onto appropriate investment products. Only two-dimensional Goal-based Risk Profiling can lead Mass Affluents towards a fully tailored portfolio. In order to develop a Goal-Based Risk profile, providers will need to capture and review the relevant objectives and risk information during their earliest conversation with customers.

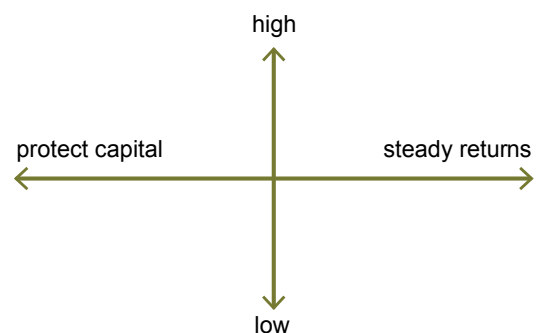


FIG. 2. TWO-DIMENSIONAL GOAL-BASED RISK PROFILING CONSIDERS TYPE OF RISK AS WELL AS LEVEL OF RISK

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The Solution (cont.)

b) Allow for Multiple Goal-Based Risk Profiles

Because Mass Affluents consider investments according to specific goals and consider each investment in the context of their whole portfolio, they require multiple risk profiles, one for each goal. If providers upscale their ICT capacity to accommodate multiple risk profiles they can encourage Mass Affluents to pool more of their investments with them.

HOW TO FIND RISK TYPE? JUST ASK
Using questionnaires and other data capture tools, your customer-facing colleagues can start an in-branch conversation that will allow them to easily assess the type of risk an investor is willing to accept. Introduce online tools that allow investors to self-profile.

ACTION POINT 3: LINK GOAL-BASED RISK PROFILES TO PRODUCTS

There is little point in encouraging front line staff to pinpoint a customer’s goal-based investment requirements, if they cannot offer products to precisely match those goals. Therefore, providers must:

1. Pre-screen all the investment products they wish to retail/include in their advisory service against the same Goal-Based Risk Profiling criteria. This means plotting all existing investment products (equities, savings plans, bonds, term deposits, funds, cash and so on) on the same Goal-Based Risk Profile matrix in Fig 1. This allows portfolio managers to precisely match risk profiles (based on customer objectives) with investment options that meet those objectives.
2. Continually review where investment products sit on

the Goal-Based Risk Profile in order to accommodate changing circumstances and market conditions.

3. Ensure all new/emerging products are assessed and screened using the Goal-Based Risk Profile matrix.
4. Portfolio managers and asset managers can also consider creating their own-brand investment funds using the goal-based approach, ensuring a wide choice of products is available for each goal type.

Once products have been mapped on to the Goal-Based Risk matrix, the ‘matching’ process can be automated; frontline employees can quickly and easily make investment product recommendations as soon as they have captured information on customers’ investment goals.

ACTION POINT 4: CREATE INVESTMENT EXPERIENCES FOR MASS AFFLUENTS



All efforts towards capturing Mass Affluents are in vain, if customers don’t experience the difference. To succeed, providers need to adopt a formalised customer experience management approach to show customers that, at the very least:

- Their expectations are the starting point of a single provider-wide conversation about his/her goals. In this conversation every part of the provider’s business acts and speaks in unison and customers have no need to repeat conversations or wait for advice.
- Their provider proactively contacts them whenever there is a significant change in their situation, in the market or in one of their investment products.
- They can self-manage (or easily request) practical changes to their profile and their preferences.

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The Solution (cont.)

ACTION POINT 5: FOCUS ON IT FOR AUTOMATION AND SELF-SERVICE

To efficiently and affordably deliver a Mass Affluent customer experience throughout the existing retail branch network an IT-led approach is essential.

a) Customer-Centric ICT to Support Conversations and Touchpoint Interactions

More emphasis needs to be placed on getting technology right in the discovery phase for understanding the client, finding out about their needs and demonstrating the investment strategies

THE TECHNOLOGY IS HERE

Much of the relevant software is already commercially available at an affordable price. Focus on those tools that are easy and enjoyable for customers and employees to use without excessive learning.

most suited to achieving their financial goals. Providers need to support Mass Affluent customers with appropriate technology in-branch, online or via mobile devices. Mass Affluents are technologically savvy and well educated; those who want to self-service should be allowed and encouraged to do so. Customers should be able to input changes to their circumstances or requirements via any channel and immediately receive tailored information and advice.

b) Employee-Centric ICT to Help your People Deliver Experiences

Key steps in the investment journey need to be modelled in such a way that staff can process them quickly, enjoyably and easily, supported by online training. Efficient interactive tools can facilitate the capture of investor purposes, views and risk profiles; staff should be able to generate on-the-spot proposals with a single click.

SUMMARY

FINANCIAL SERVICE PROVIDERS HAVE A STARK CHOICE TO MAKE

The stakes are as simple as they are high. Regulators are changing the game across all segments, but the rewards of the Mass Affluent market are still out there for the taking.

Those financial institutions capable of acting swiftly and decisively stand to gain substantially from capturing Mass Affluent loyalty and spend.

Those who decide to stick with business as usual should prepare to relinquish a profitable portion of the market.

The options are clear. Keep pushing products or offer real investment advice for a fee. Create and sell own-brand

funds or mix-and-match according to client needs. Maintain old habits or make financial services more customer-centric.

In short, when it comes to the Mass Affluent opportunity, financial retailers, insurers and even asset managers need to either get ready for structural transformation or get out of the game.

Bearing in mind the operational and financial impact of change, this is a considerable choice to make. But with the regulatory clock ticking, it is one no financial service provider can afford to ignore.

How to profit from customer-centricity in the Mass Affluent investment market



AUTHORS

ALAIN THYS

Alain is on a mission to make the world a more customer-friendly place. Not just because this is a nice thing to do, but because he has learned that customer-centricity is probably the most profitable strategy any business can pursue. On this journey he has led the design of the ING Life & Pensions customer experience, supervised the global integration of ABN-AMRO Asset Management with Fortis Investments into BNPP-IP and led company-wide customer-centricity initiatives at Lexus, Philips, Coca Cola and others.

Alain has recently summarised some of his thinking in a book, *So You Want To Be Customer-Centric*. It has become recommended, and occasionally mandatory, reading in many organisations including Philips, Zurich Financial and ING.

Today, Alain heads up Futurelab, where he contributes his passion for the customer, his mind for simplicity and over 20 years' experience as an international strategist, retailer and venture capitalist.

GEOFFROY DE SCHREVEL

Geoffroy has provided solutions to the financial services community for over 30 years, directing the payments practice of KPMG, co-leading the development of Maestro International and heading up the payments and corporate initiatives at Swift.

Geoffroy is now CEO of Gambit Financial Solutions, which was founded with venture capitalist support in 2007. Gambit helps financial institutions develop the essential building blocks for providing customer-centric investment advice, focusing on Mass Affluent, Private Banking and Portfolio Management. Gambit also provides solutions for optimising Asset and Liabilities Management for very high net worth individuals and institutions.

Gambit has also teamed up with HEC University of Liege and other universities to carry out ongoing research on investment advisory, risk-return portfolio optimization and financial crisis detection. Gambit is delivering its solutions to several first class financial institutions and insurance companies in Belgium, Luxembourg, France and Switzerland. Geoffroy is focused on further international expansion.

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Rosalind is a B2B editor and writer. She helped the expert contributors shape the content and sharpen the messages in this paper.

How to profit from customer-centricity in the Mass Affluent investment market



How We Can Help

Futurelab and Gambit Financial Solutions have combined their industry knowledge and experience to equip financial service providers to capture the Mass Affluent opportunity. We have methodologies, tools and templates in the following key areas:

- Finding and understanding Mass Affluent consumers using big data and customer insight discovery
- Rolling out Goal-Based Risk Profiling, while remaining fully compliant with current and emerging regulations
- Plotting investment products on to the Goal-Based Risk matrix to enable close-match product recommendations
- Bundling existing investment products into tailored customer-centric solutions
- Leveraging IT to capture customer goal data, risk expectations, constraints, assets and liabilities and time horizons
- Portfolio construction, selection of investment products (equities, bonds, term deposits and funds) and optimization to fit the client's goal-based profile

WE'VE DONE THE HARDEST PART

Gambit has already plotted most European investment products against the Goal-Based Risk matrix. Gambit directly connects to data sources – banks' own systems, market data providers or depository institution – and automatically checks data integrity. Gambit replicates missing data with proprietary mapping tools and alerts users when data changes.

- Reporting on portfolio characteristics (risk, performance, fit with profile) for sharing with customers
- Developing a comprehensive commercial strategic plan, including brand strategies and pricing of investment advice
- Defining and describing a profitable, customer-driven investment experience
- Supporting a full rollout and implementation of your Mass Affluent strategy.

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