



The money in motion opportunity

Capturing the opportunities for increasing
assets and enhancing relationships as
investors move into retirement



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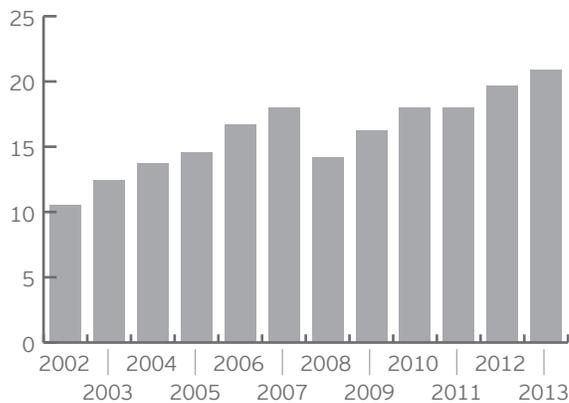
Capturing the opportunities for increasing assets and enhancing relationships as investors move into retirement

The financial services industry is competing for an opportunity to take advantage of recent retirement demographic trends, which have created a wave of "money in motion." Job changers and retirees are making decisions on how to roll over their assets and consolidate their wealth. The rollover market in the US alone is expected to grow by more than 27% between 2013 and 2016 and potentially reach US\$530b. Similarly, total retirement assets within the US have grown by 47% over the last five years as the baby boomers' investment

accounts recover after the financial crisis (see Figure 1). At the same time, households are consolidating their assets as they plan for retirement. So the race is on for financial services companies to attract the growth of retirement assets and acquire new assets as individuals consolidate portfolios in preparation for retirement.

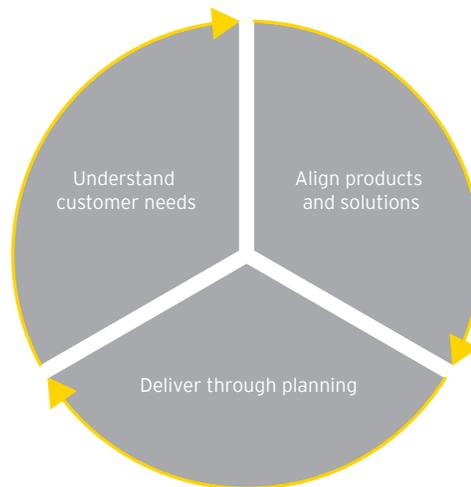
Figure 2 represents an approach to capturing money in motion that focuses on understanding customer needs, aligning products and solutions to meet those needs and delivering holistic advice and planning to support them. This approach has helped large financial institutions acquire and retain money in motion. The intent of this paper is to provide an introduction to each of those components and their potential impacts on acquiring the money in motion. Subsequent papers will provide more detailed information on each component.

Figure 1. US retirement assets (US\$b)



Source: ICI, The U.S. Retirement Market Third Quarter 2013, 10 January 2014

Figure 2. The customer-focused approach



Understanding customer needs

Understanding customer needs and servicing those needs in an appropriate and timely manner can be the difference between growing a relationship and losing a valued customer. Many financial institutions struggle to understand their customers holistically. Knowing when a customer has changed jobs or when he or she plans to retire is information that may be used to proactively trigger a conversation to uncover changing needs.

Financial institutions are increasingly relying on analytics throughout the customer life cycle. Even the financial advisors who know their customer and regularly review customer accounts and portfolios can benefit from customer analytics. Timely insights can:

- Improve prospecting
- Optimize a book of business
- Drive lending growth
- Reduce customer attrition

In short, strong analytics improves the customer experience and has a direct impact on your business.

Predicting future customer behavior does not always have to involve a complex, predictive model. It merely requires information that is insightful and actionable. Simple customer actions registered through service channels may signal an impending rollover or retirement event. Examples include:

- Address change
- Withdrawal request
- Navigation to rollover page online
- Dropout from the online rollover process
- Change in employment status
- Other life events

Such data enables financial institutions to provide their inbound and outbound channels with proactive ways to support and meet customers' needs.

Actionable data can help financial advisors deepen their customer relationships and help inbound call centers improve success rates for providing solutions, such as educational materials or tools to address requests, while at the same time retaining customers. Monitoring and responding to online activities can also help maintain and grow relationships with customers who primarily leverage online services, delivering a more consistent customer experience and product messaging both online and through call centers.

Financial institutions are gathering more structured and unstructured data every day. Data sources include in-house planning tools, web activity, email and many third-party sources. A framework to prioritize the data gathered and select the most applicable data source is critical to enable more complex (and predictive) models in the future. Reaching the future state can be an iterative process so that your business may achieve early success in capturing the flow of retirement assets.

Customer analytics enables you to better understand and meet your customers' needs. Best-in-class analytics programs capitalize on timely, relevant customer data. Increasing your investment in gathering, storing and enabling more actionable data is a competitive advantage that financial institutions can leverage for continued growth and risk management.





Aligning products and solutions

In addition to developing a solid understanding of customers' needs throughout their lifetimes and using customer analytics to help address those needs, the underlying products and solutions, such as IRAs, unified managed households and insurance and investment products, are equally pertinent. In order to properly align products and solutions to customer needs, financial institutions should consider upcoming regulations from FINRA and the Department of Labor (i.e., fiduciary standards) and the appropriate value proposition for customers. Financial institutions must also ensure that participants and customers are aware of their options and the associated fees.

Streamlined IRA solution. As it relates to rollovers, a simplified IRA offering and rollover process that is integrated within a holistic financial view for the customer creates differentiation. Many financial services providers have not focused on simplifying their IRA product offerings or on easing a customer's transition from an institutional plan to a retail plan. Many firms think that customers want a different experience, but instead, they are actually looking for a seamless transition and access to the products and solutions they already have. However, as customers enter retirement, they do need access to different investment solutions, such as annuities, that can protect their wealth and generate income. Thus, financial institutions are beginning to look into products that are portable and can be transferred from an institutional plan to a retail plan to simplify the experience even more.

Unified managed household (UMH). As institutions and advisors shift their focus to planning solutions, industry professionals have recognized the benefits offered by a UMH, a consolidated view of household net worth in which many individual accounts or registrations are combined into one complete package. According to EY's 2012 wealth management survey, *Enhancing the advisor and customer experience through technology*, a little more than one-quarter of firms offer a UMH, but many others expect to do so in the near future. To develop an effective UMH, firms will need to understand clearly the existing capabilities of their people, processes and technology and develop strategies to address challenges

in the areas of wealth management, regulation, operations and technology.

Insurance products. If firms are not using the full suite of insurance products, they may be under-delivering value relative to clients' objectives. For example, analysis conducted by EY's Insurance and Actuarial Advisory group reveals that, with the right combination of products, the amount of assets a client needs to fund his or her desired retirement income could be reduced by 12% or more. However, both customers and advisors often become overwhelmed by the variety of choices offered by insurance companies. Each product has distinct features, benefits and costs. Firms will need to evaluate which associated product risks they wish to include and insure as part of their planning process, develop a strategy to incorporate the relevant products into their advisory offerings, and train advisors how to offer the products appropriately. In addition, firms will want to develop a product management process to establish standards for including specific insurance products in the advice offer, to monitor ongoing product and carrier performance and to inform advisors and clients of recommended actions.

Investment products. Products such as mutual funds, exchange-traded funds, brokerage accounts to hold and trade stocks and bonds, and banking products are time-tested solutions for many firms. While firms already have long-standing experience with these products, for specific goals such as generating retirement income, they may find that more exotic financial products could also provide value. One such product is market-linked securities, which offer potential equity returns with downside protection. Firms will need to evaluate which investment products to include in their advice offerings and plan to develop the appropriate monitoring processes and standards if they choose to provide more complex investment vehicles.

In summary, customers are more likely to consolidate their assets with a particular financial institution when it provides an appropriate solution tailored to their needs.

Delivering through planning

As a result of the most recent recession, clients are less focused on returns and more focused on outcomes: Can I retire? Can I afford my children's education? Will I be able to leave any money to my heirs? A solid financial plan is potentially the most important service that financial institutions can provide to customers. The plan evolves throughout a customer's life, supports the achievement of a customer's desired outcomes, and serves as a guide for financial institutions to understand and address a customer's holistic and changing needs. Customers with active financial plans are more likely to retain and consolidate new assets with their institution throughout their lives. Specifically, firms have found that focusing financial planning on customers' goals, including more secure retirement income, has dramatically improved the customer experience and increased retention.

Shifting to goals-based planning. Goals-based planning centers on developing a plan that facilitates a discussion of trade-offs and confidence levels toward reaching specific goals. With the appropriate tools and technology in place, financial institutions are able to help advisors and customer-facing associates make customer conversations more complete and meaningful.

Goals-based plans enable financial institutions to provide customers with more tailored, suitable advice, which responds better to growing regulatory pressure and more adequately addresses the fiduciary standard that is expected of any advisory relationship.

Goals-based solutions require investment in technology, training and asset management operations; however, the benefits for the financial institution, the advisor and the customer are significant (Figure 3).

Retirement income planning. Adequate retirement income is usually the highest priority for customers. In fact, according to a 2013 study by Allianz, *Reclaiming the Future*, 61% of Americans surveyed fear outliving their money more than they fear death. More surprisingly, 77% of Americans in their late forties fear outliving their money in retirement. Remarkably, many financial planning platforms fall short of providing the customer with an estimate of retirement income and a process to invest, protect and withdraw assets in retirement. With the wave of baby boomers entering retirement, customers are inundated with a series of new risks to consider: health care expenses, social security, inflation

Figure 3. Benefits of goals-based planning

For customer, advisor and institution	Personalized planning and advice	Advice tailored to a client's specific needs creates a differentiated service in the marketplace.
	Scalable framework	Goals-based planning provides advisors and firms a consistent framework that can be leveraged with customers within the mass affluent to UHNW segments.
	Interactive customer and advisor experiences	A rich, engaging experience provides greater transparency that yields a lifelong client partnership.
	Asset growth and retention	All-inclusive planning leads to asset consolidation and reduces irrational behavior due to market volatility as results are measured against goals and not benchmarks.
	Risk reduction	Customers do not take unnecessary portfolio risk, and advisors reduce their need to chase alpha. The firm reduces regulatory risks as investment suitability is measured according to the goal rather than the customer's overall risk profile.

and so forth. But despite this range of retirement income risks, many financial institutions are failing to adequately serve the needs of those clients, leaving more than half of those nearing retirement unable to retire as planned.

Financial services providers have yet to crack the code for developing the optimal retirement income risk management framework. Our experience has shown that institutions that have been successful in retaining customers close to retirement have leveraged four key retirement income strategies, detailed in Figure 4. These strategies have proven integral in helping customers consolidate their assets and enabling a better-rounded household investment management approach.

In addition to the strong customer analytics mentioned earlier, another key differentiator for firms seeking to capture money in motion is the use of risk management analytics to estimate and manage retirement income risks. These risks increase after the client has stopped working and include inflation, sequence of returns, longevity, health care, market volatility and so forth. While higher net worth clients are able to self-insure a portion of these risks, they remain prevalent for

all wealth levels, including clients with US\$250k to US\$5m in assets. Firms are starting to communicate and incorporate these risks into household advice and research for customers across all segments.

Scaling the planning capability. Many financial institutions do not offer planning solutions for certain customer segments, particularly the mass market. This is due to the cost of scaling a face-to-face interaction, which is often required for proper financial planning. A key differentiator in the industry today is providing online planning solutions for the mass market and institutional retirement segments. These solutions will give the targeted customer segments the capabilities to leverage planning tools themselves, thus reducing the costs and scalability issues faced by financial institutions. Simple planning solutions that integrate internal and external customer account information into a cohesive savings and investment plan with advice and guidance options are providing financial institutions with the ability to scale their planning offers and increase their retention rates and market share of retirement assets.

Figure 4. Four retirement income strategies



Conclusion

The opportunity to acquire retirement money in motion is here. Financial institutions are in a race to do so through retention and growth strategies. A focus on understanding and reacting to customer needs in a timely and effective manner is the critical differentiator. Through the use of customer analytics based on customer behaviors and an emphasis on financial planning, financial institutions are finding that they have the capabilities to address customers' expectations in real time. The evolution of the financial plan to a goals-based one inclusive of post-retirement planning is helping customers achieve their desired outcomes and providing financial institutions with the "sticky" solution that retains customers for life.

EY Wealth and Asset Management Advisory professionals advise financial institutions on how to gain the competitive edge in the race to capture money in motion. Our teams have experience supporting financial institutions in the retail retirement, institutional retirement and brokerage markets as they identify and implement capabilities to address customers' retirement needs. We deliver retirement-related advisory services to financial institutions, from developing strategies for enhancing the rollover experience to identifying enabling technology and solutions that can capture and leverage customer analytics. Our retirement teams also support financial institutions, asset management firms and insurance companies in developing complex retirement planning and portfolio-modeling services, helping to position them to assist their clients up to and through retirement.





Contact information

Marcelo Fava

Financial Services,
Ernst & Young LLP
Charlotte, NC
+1 704 350 9124
marcelo.fava@ey.com

Kelly Hynes

Financial Services,
Ernst & Young LLP
Charlotte, NC
+1 704 350 9046
kelly.hynes@ey.com

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