

The Case for Banks to Offer Personal Financial Planning Services

An Honors Thesis (ID 499)

by

Erin M. Wiese

Thesis Director

Gene W. Hoban

Ball State University

Muncie, Indiana

May 1986

graduate spring 1986

Sp. Coll.
118010
L.D.
2480
.24
1986
.W 54

Personal financial planning has become one of the fastest growing financial services of today. A study by the Bank Administration Institute indicated that 7% to 8% of all households are interested in obtaining financial planning services. The study also stated that the interest level should grow as consumer awareness increases.¹ Full financial planning, which includes saving, insurance, investment, real estate, tax, retirement, and estate planning, is being offered through a variety of sources. Independent agencies, brokerage firms, insurance companies, and a few banks are offering consumers financial plans. Banks, however, have been slow to take advantage of this trend.

A small survey of Indiana banks revealed that only around 30% were doing any type of planning (see graph). The services provided were limited; usually the banks answered specific questions with the aid of a computer. Very few banks put together a comprehensive package that dealt with all of the aspects discussed above. The majority were only offering advice to wealthy customers as part of their trust department services. This poor response may hurt banks in the long run. In today's competitive market banks should act quickly if they plan to act at all. Banks need to decide whether or not to offer personal financial planning before others capture the market. E.F. Hutton, IDS, and Aetna are just a few of the firms who are already offering plans.

Advantages for Banks

Banks have a number of advantages in providing personal financial planning services. The banking industry has a reputation for trustworth-

¹ Philip Sudo, "A Product that Sells Other Products is the Rationale for Chemical Bank's Financial Planning Service", American Banker, Sept. 19, 1985.

Personal Financial Planning in Indiana Banks

total asset size: to \$600 million

only limited planning for the wealthy as part of trust
department services 50%

discussing possibility of offering some type of personal
financial planning services 25%

presently offering some planning services 25%

offering full personal financial planning 0%

total asset size: \$600 million and up

only limited planning for the wealthy as part of trust
department services 35%

discussing possibility of offering some type of personal
financial planning services 25%

presently offering some planning services 30%

offering full personal financial planning 10%

iness. Many individuals do business with the same bank year after year. These people will trust their bank to give them financial advice. Offering a good financial plan can only improve customer relations.

Another advantage to banks is that their present customers are a ready market for financial planning. Consumers have a strong need for financial planning services. The public is bombarded with many different kinds of investment, insurance, and banking products- with new products being introduced every day. The variety in just IRA options and mutual funds is staggering. With all these alternatives consumers are easily confused as to what would be best for them.

A third advantage is banks can use personal financial planning to sell more bank products. Middle income persons especially will want savings plans for retirement or the children's college education. Financial planning will also provide a ready market in the future if banks are allowed to offer investment services. However, to maintain a trustworthy reputation and provide the best plan, banks will have to also recommend non-bank products.

Cost Considerations

While personal financial planning provides the bank several advantages, the cost of offering these services can be high. One to one selling is expensive and few banks have employees knowledgeable enough to handle a comprehensive plan. Salary and training costs may be prohibitive for some smaller banks.

There are several possible ways to cut down on costs. First, an outside financial planner could be hired to work in the bank. This would allow for almost immediate start-up of the program and no training costs. Banks must keep in mind that this person will represent them to clients.

The planner should have either a Certified Financial Planner (CFP) or a Chartered Financial Consultant (ChFC) designation. The bank should also review the planner's experience, trustworthiness, and investment philosophy.

A second idea to cut costs is to have an outside firm write the bank's plans. The bank would get the basic information from each customer, have the outside firm draw up the plan, then the bank provides the completed document to the customer. Basically, the bank's only cost would be having the plan written. Similarly to having an outside planner work in the bank, the bank must review the planner's credentials.

Computer software can also help cut down on costs by providing economies of scale. Pre-made software packages are available that can complete the entire financial plan. Cash flow analysis, tax estimates, investment reviews, estate planning, a balance sheet, and an insurance review can be completed in about an hour. The packages cost around \$6,000 - 7,000 and can produce 20 - 80 page reports complete with color graphs. These packages are best for clients of \$70,000 or less who tend to require less complicated plans.

Ways to Increase Effectiveness

There are several ways to enhance the effectiveness of a bank's financial planning efforts. Plans will be more successful if the customer's convenience is kept in mind. Questionnaires used to obtain the client's information should be as short as possible. A good plan requires complete information, but few people will want to fill out a detailed, twenty-page questionnaire. The same philosophy should be applied to the report the customer receives. The average customer's finances will not require an eighty-page plan, nor will the customer want to wade through it. The plan should be comprehensive, but easy to understand and to the point.

Financial planning is also more successful if it is specific. Customers want to see results for their money. Although banks do not usually recommend specific stocks, they should indicate the investment area and risk level. Tax saving suggestions should be included and a budget drawn up. Also, the bank should offer a follow-up meeting to answer questions and get the client started on the plan's recommendations. Naturally, the cost to the customer must be reasonable. To compete effectively the plan should cost less than \$500.

A final suggestion to increase the effectiveness of a bank's personal financial planning is to target the desired market carefully. Wealthier individuals will want more investment advice and have more complicated plans. However, the bank can charge more. The middle income group has more volume and less complicated finances, but the bank must charge less per client. The depth and comprehensiveness the bank's plan must have depends entirely on what customers the bank targets.

Every bank should evaluate the ideas discussed here. The bank's goals, customer base, size, and personnel will determine if it can offer personal financial planning services effectively and profitably. Banks that do want to offer these services should act soon. Awareness of financial planning services is growing greatly, mostly because of competitors' advertising. Banks must take advantage of this opportunity before competition squeezes them out of this market.

Bibliography:

- Albert, Andrew, "Financial Planning Shapes Up as Crucial Area, Study Says", American Banker, January 17, 1986, pp. 1 & 14.
- Clinard, Joseph, "Don't Be Left Out in the Cold", American Banker, May 31, 1985, p. 14.
- "Computerized Financial Plans: How Good?", Changing Times, October, 1985, pp. 47-53.
- "Developments in Personal Financial Services", Banking World, January, 1986, pp. 33-34.
- Dynan, Frank, "Going for the Middle", American Banker, May 31, 1985, p. 13.
- Gross, Laura, "Banks Dispense Investment Advice through Gap in Glass-Steagall Wall", American Banker, August 14, 1985, pp. 1 & 15-16.
- "How Banks Can Make Money from Financial Planning Services", American Banker, June 6, 1985, p. 16.
- Lauterbach, Jeffrey, "Planner in a Box", Financial Planning, October, 1985, pp. 218-223.
- Roe, James, "Financial Planning Services Without Tears", Bankers Monthly, April 15, 1985, pp. 21-22 & 25.
- Shoultz, Donald, "Financial Planning Being Reviewed", American Banker, June 10, 1985, p. 11.
- Sudo, Philip, "A Product that Sells Other Products is the Rationale for Chemical Bank's Financial Planning Service", American Banker, September 19, 1985, pp. 16 & 12 & 14.
- Watterson, Thomas, "As Banks Diversify, Some Begin to Take on Planning Services", The Christian Science Monitor, May 17, 1985, pp. B3 & B10.