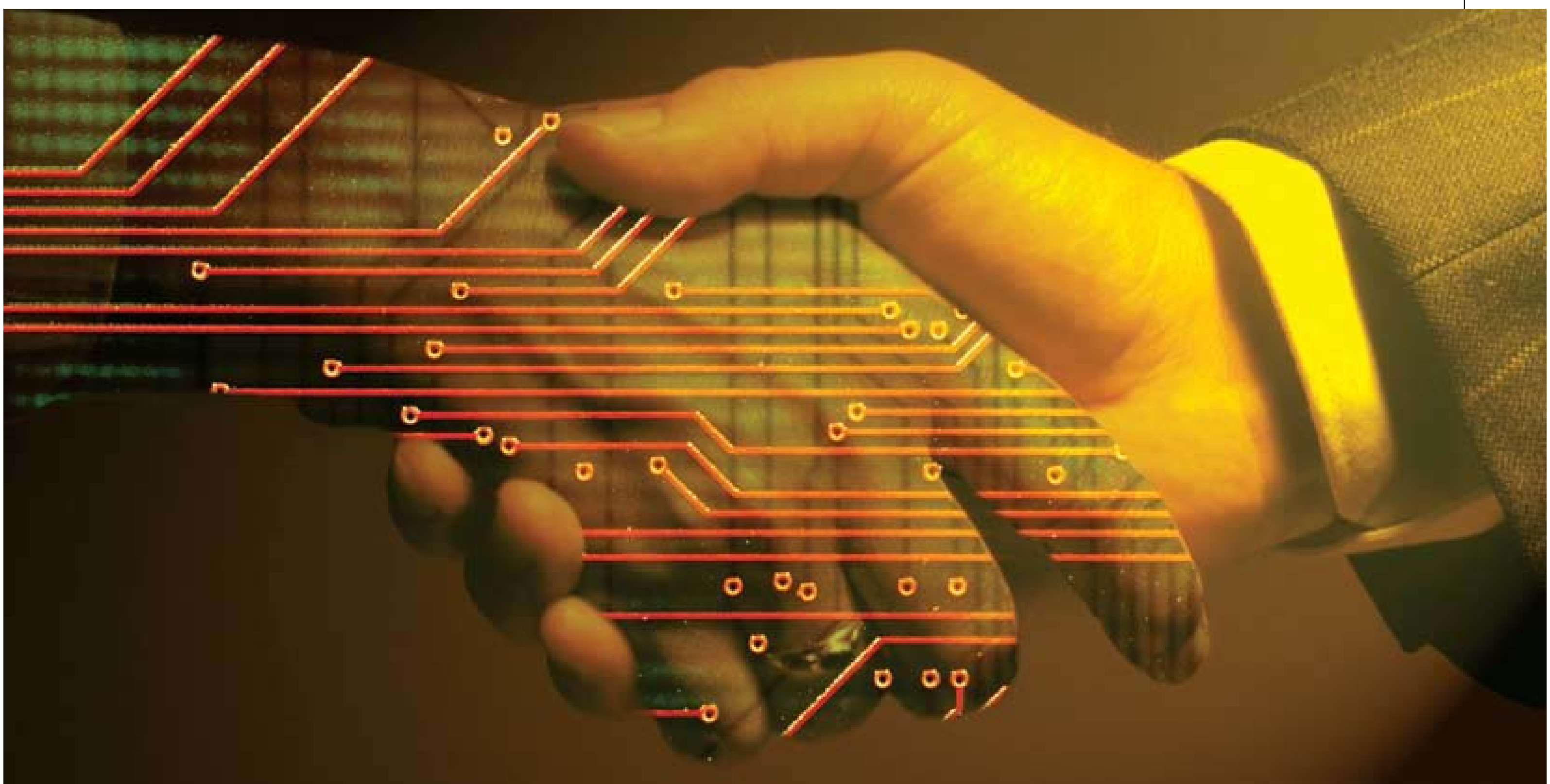
Integrating the Technical and Emotional Aspects of Financial Planning Solutions

A good Financial Planner is one who combines the technical knowledge and applications with client's emotional connect, sensitivity and has the ability to evoke trust and respect from the customer.



In the award winning science fiction "Foundation" Trilogy (written in 1950s), Dr Isaac Asimov introduced a scientific technique known as Psychohistory. It was essentially a statistical tool, but instead of calculating probabilities of events alone, it was used to calculate sweeps of history with special emphasis on human emotions.

Expert proponents of the theory could not only predict the future developments, but could also predict and read broad emotions provided the mass of people was large with the caveat that a single individual was always unpredictable. Science thus combined the technical and emotional aspects of the human mind and tried to predict the future of mankind. This was probably the first serious attempt at suggesting that the emotional aspects of the mind could be combined with such a dry discipline as statistics.

The term Financial Planning also brings a very colourless image to mind. The Financial Planner, bespectacled, armed with calculators with IRR/NPV functions, serious and focused, speaking about numbers all the time. Technical analysis being the forte, we can picture the average client hanging on to every word to find out how to make the best returns.

However, Financial Planning is more than just making high returns through analysis. It is more than just reducing

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the world to a set of numbers. A well constructed Financial Plan should have the compelling power of making an emotional human being believe in it. The credibility does not lie in merely ensuring that returns are met.

Wealth Management - Bigger than just Wealth Creation?

As much as wealth creation is important, wealth maintenance is probably going to be of bigger importance to the individual. Hence one has to work on the risks and evolve strategies to hedge those risks. This involves a lot of dialogue with the client about things which do not make for pleasant conversation.

Imagine speaking to the client (who is about to invest jointly with his wife) about the possibility that his wife might run away with the money or demand a share through alimony! Imagine speaking to the client (about to plan for his child's future) about death! Imagine speaking to the client about the Indian economy grinding to a halt just when infrastructure investments are being considered! Imagine speaking to the client about an old age existence when even the basic necessities are going to cost a fortune and the client's current affluence will be sorely missed! Surely not the forte of the earlier mentioned number focused unemotional person.

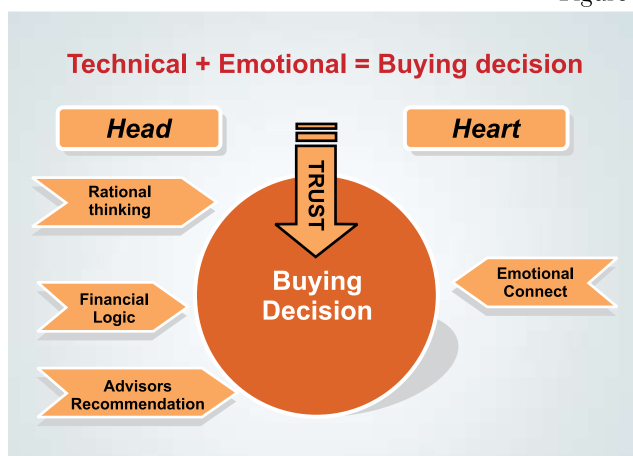
Every human being has a number of needs, dreams and aspirations in life. These needs range from basic requirements like food, shelter and clothing all the way up to the highest need for self actualization. At a base level one would like to live life to the fullest ensuring that the best is provided for the family. While providing the best for our family and self and for one's own financial well being we make various financial decisions like childrens education and marriage, creation of wealth, so the best can be provided to family, money for emergencies, an independent retired life, legacy for future generations.

Financial buying decisions/ investment decisions are an outcome of multiple considerations (Figure 1). Some of these considerations are:

1. Rational thinking - Rational thinking is used when one wants to take a decision where multiple options are available. For example, guaranteed return, projected at a lower rate vs. non-guaranteed returns projected at a higher rate.
2. Financial Logic - Analysis and understanding of prevailing economic conditions, IRR, real rate of return, inflation rate, comparison of similar products
3. Advisor's Recommendations - Recommendations made by the Financial Planner/relationship manager/financial advisors.

While these three considerations help and support the decision making process, would you buy if you are not convinced about the need for a particular solution? Would you buy if you do not trust the advice of the Financial Planner? Would you buy if you think the planner has not considered all the aspects of your family and "what you would like to do" for them (rather than "what you can do" for them)?

Figure 1



The degree of importance and the priority that one would assign to these needs is related to the alignment of these needs with the dreams and aspirations of an individual. A Financial Planner who understands the needs, dreams and aspirations of the client and is able to demonstrate trust ability (that they can be trusted) moves ahead with providing the solution.

Decision making is driven by, "Trust" And "Emotional Connect" The right amount of insurance is bought only after the need is understood and emotional chord is struck and one trusts what the Financial Planner is recommending.

Decisions relating to providing for family, education and marriage of children, enjoying an independent retired life and creating wealth have a strong positive pull. That's where the Financial Planner need to ensure a strong alignment between the Rational and the Emotional thought.

LIMRA International, a leading insurance educator, carried out a study on determining what clients expect. Some of the expectations of clients are as follows:

• "I have a good knowledge of life insurance."	29%
• "I wish someone would tell me which life insurance products are right for me."	49%
• "I wish someone would tell me which financial products are right for me."	32%
• "I would be willing to pay for life insurance and financial advice."	48%

Source: LIMRA's Consumer Attitudes & their Buying Behavior Studies

A sale is only complete when there is a signature on the application form and the cheque. This is possible only if there is an emotional alignment between the client and the Financial Planner. Some of the emotions that are experienced during an insurance buying decision are,

Emotions	Questions
Indifference	"I don't need insurance!"
Denial	"Nothing is going to happen to me!"
Fear	God forbid…
Concern	"How much is enough to ensure financial security for my family?"
Love & Affection	"I Love my wife and my children"
Determination	"I want my dreams for my family to be ensured, regardless of what happens!"

Need for a Strong Foundation.

Creating a corpus for achieving your dreams and aspirations requires regular investments in the right kind of areas, instruments and options. Just as a skyscraper would need a strong foundation to be able to withstand the onslaught of the elements of nature, Financial Plan should have a strong foundation to be able to withstand the unforeseen events in life.

Most financial portfolios give too little importance to insurance; as a result of which the product portfolio looks something like as depected in figure 2:

If there is no protection, the entire savings could get mopped up due to accidents, death, disability or sickness.

A comprehensive Financial Plan is one which takes not only the investment aspect into account, but also ensures adequate protection. A Financial Plan cannot be complete unless the investments are financially protected from the impact of a sudden accident, illness, disability or even an unfortunate death; which do not come in with a prior notice. Other risks to building a portfolio over time include risks to property, risk of large outflow arising out of professional liability, risk of being hit with burglary or embezzlement, breakdown of marriage etc. However, all these are also strongly linked to emotions.

Whether the rationale of purchase is technical or emotional, it is an undeniable fact that wealth maintenance is a non-negotiable component of a strong Financial Plan. A good Financial Planner understands both these aspects and is able to connect with the client ensuring once one becomes a client, it if for a lifetime.

Similarly even when one is speaking of positive aspects, one needs to connect seamlessly with the thought process and aspirations of the client. To do these one needs to know how the strong emotional need to be independent drives a client. To do this, one also has to take into account the cultural propensities of the client. All these are not possible without taking into consideration the emotional aspects of Financial Planning.

One strong emotion while speaking of risks that one encounters is that of denial ("Nothing is going to happen to me"). Tackling that requires sensitivity and emotional connect and just a financial calculator and massive knowledge of markets and plans is not going to help – though without those the final solution cannot be derived.

In conclusion, the best Financial Planner is not necessarily the most savvy one, but the most well rounded one, who combines the technical knowledge and applications of those with emotional connect, sensitivity and the ability to evoke trust and respect from the customer. What comes first, Emotional or Technical aspects, can be the subject of debate for the next 100 years, but undeniably only one of the skills does not make for a top class Financial Planner.

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Figure 2