

Insideview

Strategic Personal Financial Management

INTERVIEW WITH KARSTEN SCHULZ

The global financial crisis and its repercussions have put millions of individuals and families under pressure with a combination of a drop in housing prices, fluctuating interest rates and loss of income. Consumers are now more aware of the need for long-term, strategic financial planning.

What are the key challenges in strategic personal financial management?

The objective of strategic financial management is to grow and protect the wealth of customers to meet their current financial needs and future lifestyle objectives. 'Personal' in financial management means that individuals can periodically ascertain and review their objectives and current financial position. The results of this strategic planning exercise can be integrated into the budget. Income, expenses and investment forecasts can be simulated and translated into quantifiable options that can be acted upon.

One of the challenges is that the cost of financial assistance to provide satisfactory personal financial management to customers has typically been very high. Consequently, consumers are starting to look beyond the banks' financial management offerings. Results from surveys conducted in Australia, for instance, indicate that a large number of consumers aged 25 to 39 who use online banking services on a regular basis are indeed interested in extended personal financial management and forecasting capabilities.

The main challenge, however, is that most financial institutions are lacking awareness of this opportunity. If the use of online financial management applications reaches mass adoption, most banks will have to integrate similar tools to their secure sites to remain in the hub of how customers manage their money. Savvy financial institutions will be able to capitalize on the strong demand for personal financial management, especially after the global financial crisis.



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How can web technologies be utilized or help to improve financial assistance in this respect?

Time is one of the critical factors influencing financial decisions and unnecessary round-trips of information between customers and their advisors are costly. Also, financial advice is often perceived as intransparent by the customer.

Information technology can be utilized to make personal financial management self-services more plausible: The increasing availability of internet access, as well as significant improvements in web technology capabilities and usability presents an opportunity for financial service companies to reduce the cost of providing quality advice and service. Also, financial institutions can provide customers with transparency in budgeting and forecasting in order to reduce the complexity of financial decision making.

What are SAP Research's plans regarding personal financial management for the near future?

Currently, we are collaborating with SAP's local HR department to effectively roll out a prototype application called "PennyPointer" to the entire SAP workforce in Australia and New Zealand. The PennyPointer prototype is a web-based solution helping to manage personal finances strategically. The prototype resulted from an SAP Research internal project. In comparison to standalone homefinance and other online applications, the input needed for analysis is focused on monthly balances of all accounts instead of every single line of transaction. This enables bottom-line analyses based on monthly balances and budget. In combination with an intuitive user interface, no deep financial understanding is required to turn the analysis effort into added value.

Thank you for this interesting conversation.