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People’s financial needs and how they are matched with financial products in UK retail financial and wealth management: Current limitations and actions for improvement

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People's financial needs and how they are matched with financial products in UK retail financial and wealth management

Current limitations and actions for improvement

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WHITE PAPER*

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Executive summary

A field research with 21 experts in financial services and surveys of 2120 respondents allow us to identify some limitations on how people's financial needs are matched with financial products in UK retail financial services and wealth management.

The following Table 1 summarizes the findings that emerged from our field research (for the underlying evidence, please refer to Chapter 2 of this White paper). Our surveys confirm that these limitations are extensively felt by people as well (for the underlying evidence, please refer to Chapters 3 and 4 of this White paper).

Table 1. LIMITATIONS IN THE CURRENT PRACTICES ON HOW PEOPLE'S FINANCIAL NEEDS ARE MATCHED WITH FINANCIAL PRODUCTS IN THE UK RETAIL FINANCIAL SERVICES AND WEALTH MANAGEMENT

Limitations /Areas of improvement	Themes
L1 **Limitations in the methods for identifying client needs**	T1 – Current methods for evaluating people's financial needs are not fit for purpose
	T2 – Functional needs identification trumps emotional needs identification
	T3 – Single and static client's needs identification overshadows holistic and dynamic client's needs identification
	T4 – Client purpose is overlooked
L2 **Limitations in the organizational systems and processes to identify client needs**	T5 – Legacy organizational systems and processes enforce path dependency for updating client needs (firms are following an advisor-centric journey rather than a customer-centric one)
	T6 – Process digitization increases speed of service (when it does) …
	T7 – …but it amplifies biases
L3 **Regulation-induced limitations**	T8 – Regulation favours information (over) accuracy which does not convert into knowledge for the client
	T9 – Regulation favours stability but reduces discretionary power
L4 **Asymmetric incentives between banks and clients**	T10 – Search for the profit / price triggers… overshadows search for client value triggers
	T11 – Search for the profit / price triggers… overshadows incentives for educating clients
	T12 – Search for the profit / price triggers… overshadows need for advice (in retail)

Executive summary

RECOMMENDATIONS TO ADDRESS LIMITATION 1

- Our research (n = 2120) shows that adding questions about client purpose when investigating client financial needs significantly increases clients' perceptions that their financial needs are more accurately understood. Therefore, **we recommend that financial institutions should introduce questions about client purpose in their methods for assessing people's financial needs.**
- Our systematic and extensive analysis of the extant academic literature (please refer to Appendix 2) allow us to identify ten client needs that can be related to people's purpose: basic necessities; safety; plan for retirement; enhancing life; self-actualization; financial independence; love/belonging; generational transfer; making the world a better place; leaving a legacy. We further classify these needs into: making a difference for yourself; making a difference for your family; making a difference for the broader community. Our findings on people's purpose are summarized in the **Purpose Taxonomy™**. Our empirical research (n = 2120) shows that the use of the **Purpose Taxonomy™** not only increases clients' perceptions that their financial needs are more accurately understood, but also their propensity to buying financial products. **We recommend that financial institutions should adopt the Purpose Taxonomy™ to identify more holistically client needs.**

Figure 1: THE PURPOSE TAXONOMY (SOURCE: LANZOLLA & PESCE, 2021

People's purpose		Risk Attitudes			Income stages
Making a difference for	Specific need	Cognitive risk tolerance (low; medium-low; moderate; medium-high; high)	Emotional composure (low, medium-low; moderate; medium-high; high)	Knowledge and market engagement (low, medium-low; moderate; medium-high; high)	• Growth • Accumulation • Decumulation
Yourself	1a. Basic necessities				
	2a. Safety				
	3. Plan for retirement				
	4. Enhancing your life				
	5. Self-actualization				
	6a. Financial independence				
Your family	1b. Basic necessities				
	2b. Safety				
	7. Love / Belonging				
	6b. Financial independence				
	8. Generational transfer				
Your community	9. Make the world a better place				
	10. Leaving a legacy				

Type of interaction

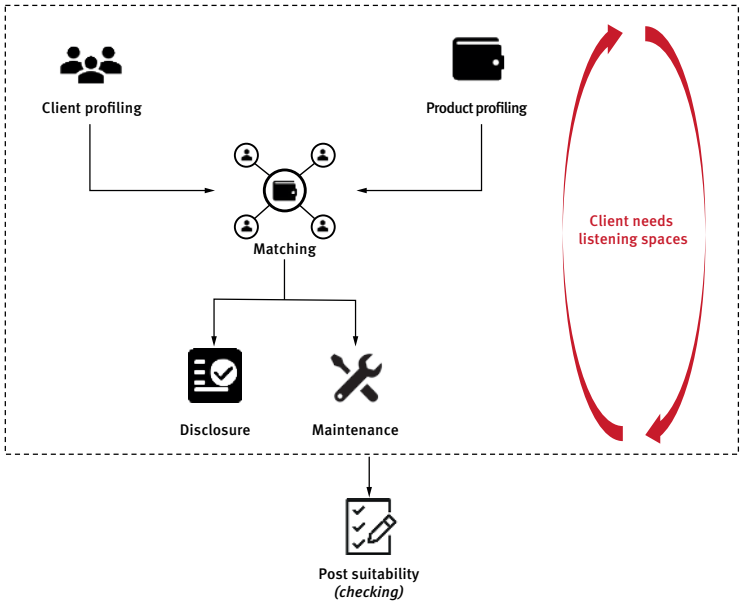
Executive summary

RECOMMENDATIONS TO ADDRESS LIMITATIONS 2 AND 3

- Our research shows that regulation has achieved several goals, including giving people confidence in the dependability of the product suitability processes. Yet, as described above, our research also shows that this is not sufficient. While people feel that financial institutions' behavior is dependable, they also feel that little scope is left for understanding their needs beyond the standard questions and interactions. **To overcome these regulation-induced rigidities, we recommend that the regulator should consider allowing for some client needs listening spaces. These listening spaces should complement the other parts of the suitability processes, not substitute them.** It should be noted here that these client needs listening spaces might also become an area of differentiation for financial institutions thus also driving innovation. As such, the introduction of such client needs listening spaces might also provide a strong incentive to fostering innovation.
- Digitization is providing much more timely information, and this is appreciated by people. However, our research shows that people feel less inclined to be open about their needs when interacting through digital channels than when communicating face-to-face. **We recommend that financial institutions and the regulator should consider introducing further checks of client needs – to control for biases– when interactions with clients happen through digital channels.**

Executive summary

Figure 2: CLIENT NEEDS LISTENING SPACES



RECOMMENDATION TO ADDRESS LIMITATIONS 4

- Overwhelmingly, experts and people feel that the relationship between financial institution and client is still massively asymmetric and that this leads to a suboptimal matching of financial products with client needs. Besides the other regulatory interventions to tackle these asymmetries, respondents to our surveys feel that education should play an important role in rebalancing these asymmetries. Our research also shows that financial education provided by commercial organizations is not considered as unbiased and trustworthy by our respondents. **We recommend that financial education should become a compulsory subject in the school curriculum to help people make better choices about financial products.**

1. People's financial needs and how they are matched with financial products

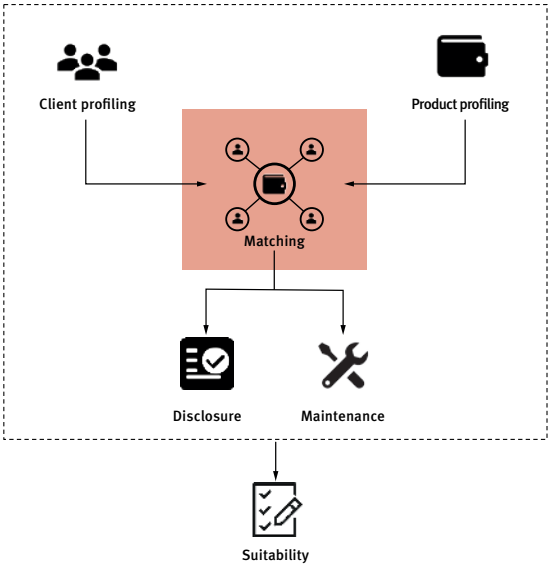
The topic of how people's financial needs are matched with financial products is of broad relevance. Financial sector companies take a keen interest in such matching practices because they are likely to affect customer satisfaction – hence potential regulatory complaints – as well as customer likelihood of buying financial products. On the other hand, people searching for financial products are often puzzled by the apparent imbalances of forces and asymmetry of information between financial institutions and banks. Not surprisingly, regulators around the world take a keen interest in this topic given the broad implications not only for the fulfilment of people's financial needs but also for the overall stability of the financial system.

In the UK, the FCA regulates financial product "suitability" through a set of rules and guidelines. The underlying fundamental principle is that there has to be a match between the product's risk and the customer's needs and risk profile. In the UK, the FCA recommends that this "match" should be achieved through the following process (please see also Figure 3):

1. **Client profiling:** understanding client's needs, risk profile and appetite. This is typically assessed through background market research and interaction with prospective clients aimed at identifying client type, investment objectives, risk appetite, investment time horizon, and other client objectives.
2. **Product profiling:** assessing the product's risk profile. This includes assessing the associated risks of each product type, including its time horizon, liquidity characteristics, counterparty risks, investment objectives, as well as other special features.
3. **Matching:** assessing the suitability of a product for a specific client. This ensures that the client's risk profile matches the product's risk profile. If these do not match, the focus then shifts towards mitigating the risk through appropriate disclosure or acknowledgment from the client of a mismatch.
4. **Disclosure:** informing the client about the risk of the product. If a risk mismatch has been identified in the previous stage, there may also be a requirement for the client to acknowledge that they accept the mismatch.
5. **Maintenance:** putting in place the necessary controls and ensuring ongoing and regular assessments of the suitability of products to clients.

The process illustrated in Figure 3 represents the backdrop of this research. Against this backdrop, in Chapter 2 we report our findings on the limitations in the current matching practices between people's financial needs and financial products based on 21 interviews with financial service sector experts. In Chapter 3, we report our findings from a survey (n= 249) about people's perceptions of the limitations in the current practices on how their financial needs are matched with financial products in the UK. In Chapter 4, we introduce our Client Purpose Taxonomy and the findings about its testing through several surveys in the UK and the USA (n = 1871).

Figure 3: HOW FINANCIAL INSTITUTIONS IN THE RETAIL AND WEALTH MANAGEMENT SECTOR ASSESS THE SUITABILITY OF A PRODUCT



2. Expert views on the limitations in the current matching practices between people's financial needs and financial products in the UK

In this Chapter we report our findings[1] from our field research and 21 in-depth interviews with senior executives in the financial services industry. The analyses of the interviews allow us to identify twelve emerging themes on limitations in current matching practices that lead to the identification of "suitable" financial products. We then cluster these twelve themes into four broader areas of improvement. Table 2 summarizes the findings of this research and the identified Areas of improvement (first column) and the underpinning themes (second column).

Below, for each theme, we report our supporting evidence that emerged from the field work. All respondents are anonymized, and all potential identifiers have been removed / edited to ensure confidentiality.

Table 2. AREAS OF IMPROVEMENT (FIRST COLUMN) AND THE UNDERPINNING THEMES (SECOND COLUMN)

Limitations /Areas of improvement	Themes
L1 Limitations in the methods for identifying client needs	T1 – Current methods for evaluating people's financial needs are not fit for purpose
	T2 – Functional needs identification trumps emotional needs identification
	T3 – Single and static client's needs identification overshadows holistic and dynamic client's needs identification
	T4 – Client purpose is overlooked
L2 Limitations in the organizational systems and processes to identify client needs	T5 – Legacy organizational systems and processes enforce path dependency for updating client needs (firms are following an advisor-centric journey rather than a customer-centric one)
	T6 – Process digitization increases speed of service (when it does) …
	T7 – …but it amplifies biases
L3 Regulation-induced limitations	T8 – Regulation favours information (over) accuracy which does not convert into knowledge for the client
	T9 – Regulation favours stability but reduces discretionary power
L4 Asymmetric incentives between banks and clients	T10 – Search for the profit / price triggers… overshadows search for client value triggers
	T11 – Search for the profit / price triggers… overshadows incentives for educating clients
	T12 – Search for the profit / price triggers… overshadows need for advice (in retail)

L1. LIMITATIONS IN THE METHODS FOR IDENTIFYING CLIENT NEEDS

T1 – Current methods for evaluating people's financial needs are not fit for purpose. As pointed out by many of our interviewees, one of the challenges banks face is the updating of their taxonomies of client needs which often are old, or non-existent. This compounds with the limitations of preliminary client segmentation – often based on demographic factors such as age, financial parameters, profession, earning potential and geographic location – which are increasingly inadequate to capture the complexity of contemporary societies.

1. Please refer to Appendix A for full methodological details on this research.

2. Expert views on the limitations in the current matching practices between people's financial needs and financial products in the UK

"Banks have traditionally relied on readily available customer data, such as age and wealth, to predict customer preferences, develop customer propositions and tailor service models. What banks are trying to achieve is a very simple, rough understanding of clients. How much return do you want? How much risk can you take? That's it. Two majors really. If you have so little information, your ability to match the client correctly to the product is limited."
(Financial Services Expert)

"These old taxonomies take into consideration only functional needs when they try to classify customers. However, new technologies and behavioural finance have underlined the importance and the role of emotions during a decision process."
(Financial Services Expert)

Deeper insights about behaviours, attitudes, life stages and lifestyle factors are necessary to gain nuanced understanding and to build actionable strategies, as opposed to "checking boxes" (typologies vs taxonomies). As pointed out by our interviewees, during the last ten years customers' necessities have drastically changed but the suitability of a product for a specific client is still assessed and matched the same way it was ten or twenty years ago:

"Even before going into values, emotion and stuff like that, you can come up with different definitions of risk. You can question risk from different perspectives and that will give you a better understanding of clients. For example, if you have two pointers - how much return, how much risk - then you can have 10 pointers if you ask them to answer five questions on risk and five questions on return. They might say: 'I want the highest possible return', but do they want this return in six months, or two years? Are they happy to give away some immediate return for long-term gains? There are questions that you can ask in order to have a better understanding of what the clients are aiming for. And at that point you can really start matching better products. The more layers you add, the better you can match better, and it can give you other ideas on products that you should be selling."
(Financial Services Expert)

Unfortunately, these approaches are considered as over-simplistic and poorly useful. As a result, banks have a misaligned perspective on their customers' preferences and experience. As pointed out by another of our interviewees:

"The core of the business must become about the ability to deliver banking experiences to consumers when and where they need it, in real-time. This requires a leadership team that understands technology is at the core of what they do and new taxonomies that take into consideration not just functional needs when they try to classify customers, but also the importance and the role of emotions during clients' decision processes. But more than that, they must understand the bank is no longer a collection of products distributed across channels, but experiences which surface the utility of the bank to a consumer contextually."
(Financial Services Expert)

"The industry could do a lot more by identifying people's emotional needs and value-led needs and building products around those intentionally. What tends to happen at the moment is that products are built for a marketing purpose and then banks see who they can sell them to. Identifying client needs and assessing the right level of suitability means finding ways of giving people emotional comfort in a cheaper way than they tend to do for themselves. The objective is to maximise anxiety-adjusted returns and banks should ask 'What is the highest level of return I can give someone relative to the stress that comes with that anxiety that they aren't able and willing to endure?' People will tend to buy anxiety-reduction themselves by sitting on cash for too long, by over-trading in the ups and downs of the market, by selling impact at the bottom of a crisis. These are all things that people do because it feels comfortable to do them at the moment, but they have long-term costs."
(Financial Services Expert)

"Is industry addressing the needs of women? Or just the needs of a selective group of men. That's a big issue as well."
(Financial Services Expert)

2. Expert views on the limitations in the current matching practices between people's financial needs and financial products in the UK

T2 – Functional needs identification trumps emotional needs identification.
Existing taxonomies are mostly aimed at revealing functional needs. Although banks are increasingly considering the emotional implications of functional needs, practices are still superficial in revealing these emotional traits. Banks tend to give importance to clients' risk capacity ("calculated in a very mechanical way and based on price") rather than the risk a client is willing to take ("the emotional side of investments based on value"). The ability to take risk is completely left up to the individual advisor –it could be completely and subjectively made up. As pointed out by our interviewees:

"Most relationships with money are emotional. The emotion is in total tension with the maths, the understanding of risk and return. You might ask: 'Well, how do you identify a client needs?' One way is to have a greater understanding of the client purpose. They might ask: 'Why am I saving for a pension?' The answer is: 'Because you can't rely on the state provision being sufficient.' End of sentence. It's not complicated."
(Financial Services Expert)

"If I were a rich person what is value for me? It's not just return. Return is one component of value. Return is also one component of outcome. Outcome means you are accessible any time I want. I can call you on a Sunday night at midnight. You have a network of other rich people, high net worth individuals, you can connect me with. You provide me with incredible opportunities in private equity. You know where I can buy the most expensive watch for my collection. You make me part of a club of people that I aspired to be part of. That's value which is not measured in return. Nowadays banks really focus on the mechanics and not on the emotions. They say, 'Here is your portfolio; these are your assets; these are your liabilities; look at your return over the last six months.' They should search for emotional value, not for mechanical returns."
(Financial Services Expert)

"What is risk? Risk is how much I want to lose or how much I'm happy to lose. Or maybe risk is how much I am happy to sacrifice for an outcome. Or maybe risk is how much I'm happy to lose in one day. Defining risk may require multiple psychological dimensions whereas in banking very often it is looked at as if it were one big mechanical measure. For example, let's look at composure, which means do you get freaked out when things go bad. Do you look at your portfolio every five minutes? Or are you somebody that checks your portfolio twice a year? That is a huge difference because you can have exactly the same kind of risk attitude or risk appetite, but people can have a different levels of composure. Clients have different emotional reactions to changes in volatility so that means that the products associated with them should be completely different."
(Financial Services Expert)

"The need for positive financial outcomes also has to be viewed alongside the need for the products to be sufficiently comfortable for the customers. Clients have to stick with them and realise the benefits of a plan, rather than panic and tear it all up and get enticed by something else. Instability in the long term always brings enormous costs, both behavioural and financial. There is always a tension between the right thing to do financially for long-term needs and the emotionally easy thing to do now."
(Financial Services Expert)

"Rational thoughts and calculated risk drive only a small percentage of people, even when it comes to taking a significant decision. The reason is related to the fact that very few customers are able to acquire the knowledge needed to understand the financial products they are buying, so they rely on emotions rather than rationality. Do investors know what the individual funds are in that portfolio? Well, some might, but a lot probably won't. They will just see what returns they're getting on an annual basis. There is a struggle between regulatory requirements and the boxes that managers have to tick versus what investors really understand. We have to explain some extremely complex things in a way that is meaningful and is going to help them make better decisions."
(Financial Services Expert)

"There is an irreducibly non-financial element in assessing client's needs. But there's also something else in investing, which is everyone, in addition to their financial needs, has an emotional need to stay comfortable with the solution that they've got, through often some stressful and rocky times, or indeed, some over-enthusiastic times. So the need for financial outcomes needs to also be viewed alongside the need for the product to be sufficiently comfortable for me to stick with it and realise the benefits of that plan, rather than to panic and tear it all up and get enticed by something else. Many banks fail to understand the basic needs, the first and ultimate goal of the customer decision-making process."
(Financial Services Expert)

2. Expert views on the limitations in the current matching practices between people's financial needs and financial products in the UK

"The industry has been focusing mainly on needs viewed through the financial lens, so a future goal is a future liability. It is a cash flow which needs to be funded. But there is always a behavioural element in every decision. There is a non-financial element that has to be taken into consideration when dealing with a human being. So regulators, particularly in the UK, have paid a lot of attention in the last decade to assessments of risk tolerance, how to identify what sort of risk is appropriate for you to take. And they've, along the line, said, 'well, we also need to consider risk capacity – that is, the risk you're able to take, rather than the risk you're willing to take. It's an area that has been left almost entirely undeveloped."
(Financial Services Expert)

T3 – Single and static client's need identification overshadows holistic and dynamic client's needs identification.
Our interviewees concur that banks are mainly focused on identifying client needs in isolation – i.e., one by one. However, banks are less strong in nailing down complex client needs and in combining multiple client needs.

"There is a failure of aggregation in presenting financial products to customers (not real advice to fulfil customer needs, but just a pure selling of products in isolation). This instability comes from the regulatory side too."
(Financial Services Expert)

"People build a financial solution to their lives by isolating needs or goals, and then isolating a set of assets in a pot to serve those goals. That comes with all sorts of costs that aren't evident if you only look at the match between the need and the feature at a product level. So that sort of hierarchical up and down, for me, is one that I think the industry largely misses. There's a failure of aggregation and you can see this instability through the fact that the regulators make possible this notion of restriction or simplified advice, where under this regulatory framework, I can provide advice while deliberately excluding a whole lot of stuff that I should know about that client's circumstances. In other words, I can advise on that portfolio in isolation of the client's financial situation. There's this notion in which I can claim to have established suitability whilst consciously leaving out a whole bunch of stuff that is unarguably important to identify suitability."
(Financial Services Expert)

"There's limitation in terms of scalability. If you offer the same questions to 50,000 people and you capture the answers, it's probably not as effective than if you could make it more granular and more customised for the company so it can achieve what it's looking for in terms of information, but it also gives the customer the ability to answer more questions in more detail. I don't think the current method guarantees the objective. Basically, we should ask more questions to our clients, but there should be a way or an opportunity to customise or build a little bit more granularity into some of the questions."
(Financial Services Expert)

As such, they have challenges in suggesting financial products that can satisfy multiple needs at the same time.

"If we ask, 'what is suitable for clients', the first way we should answer that is, 'what is suitable for them holistically?' Because money is fungible. And the industry focuses very much on a price level, rather than at a portfolio level or a client level. This leads to issues of suitability being addressed at a level that fails to consider how these things interact when brought together in a portfolio. The only way to overcome this obstacle is to start considering the fact that cash flows, in a structured and holistic portfolio, come from different products. Money is fungible across them so an advisor would be better off focusing on what to do to the client's entire portfolio so that the totality of their wealth is able to deliver the cash flow they need when they need it, rather than just try to find a specific product to fund a present or future cash flow without considering all the other revenues. You can never say for certain that a portfolio is suitable for a client unless you've understood the totality of their balance sheet and cash flows"
(Financial Services Expert)

2. Expert views on the limitations in the current matching practices between people's financial needs and financial products in the UK

Our interviewees claim that banks do not consider that client needs are dynamic, constantly changing, and need to be constantly updated (static vs dynamic). Suitability goes beyond just matching the "right" products; it is about demonstrating that there is a continuous duty of care being made on behalf of the client and of their financial needs. Poor approaches to implementing suitability processes and procedures can prove financially and reputationally costly. This applies both to retail banking and wealth management, although to a different extent. As pointed out by our interviewees:

"Financial needs are changing because life circumstances change. The retail and wealth management industry in particular, but also product manufacturers, are unequipped to serve a need for dynamically responsive solutions. So we often, as an industry, tend to sell someone a product that we have deemed to them as important at some point or another. Any flaws have nothing to do with the product but because the things about the person are changing, or the environment that they're in is changing, and it may no longer be appropriate for them, or it may not serve their need in a week, a month, or whatever. Most of the time banks do not consider customer feedback and this limits the suitability of their financial products and the overall customer experience"

(Financial Services Expert)

"The financial industry tends to do all its suitability profiling upfront, in order to tick regulation boxes and say, 'I've done my due diligence. I've determined what is suitable.' And then, once a year, if we are lucky, in a rather clunky annual review process, we'll update something."

(Financial Services Expert)

"Financial providers and institutions tend to find suitable products from those they have already available rather than focusing on clients' needs and creating new solutions. A lot of the existing financial products are adaptable, but to a limit. So, I would suggest that many providers already have their products in their back pocket. And they can probably pick from about, depending on the provider, five to 50, but that is it. And if the suitability assessment does not necessarily hit any of those products in their sweet spot, they will probably try and veer you towards one of those. They should steer you away, but they have already got the answer. That is the fundamental problem."

(Financial Services Expert)

T4 – Client purpose is overlooked. As pointed out by our interviewees, current taxonomies overlook client purpose, scope, and goals:

"If you have a client who is happy to give away return now to have more return in the future, then you should go for equity rather than bonds, for example. It's progressive - you don't need to solve everything. You need to say you can progressively add layers of understanding to what clients want. The first is maybe only two pointers, the second is maybe 10 pointers. On the third level you can ask something about the scope that is not return and risk but is the purpose of the client's investment. On the fourth level you can ask something about access, engagement, trust, visibility, network. You can continue adding layers."

(Financial Services Expert)

"Some banks tend to look at your overall position or your overall asset and liability position which is already better. But, when they look at that they look in a very mechanical way. It's all about cash flows. It's all about assets and liabilities but doesn't necessarily include an inside analysis of objectives that are more personal or that's about values, or if it's about approach to risk or is the feel, the emotional side of investments.

(Financial Services Expert)

"If you look on websites now there's very good nudges and education around risk. It's much improved in making people think about a goal in terms of a thing, like a deposit or a car or a wedding, instead of just an intangible, "Well, savings is good". That brings some reality to **why am I doing this? I'm trying to achieve something**."

(Financial Services Expert)

2. Expert views on the limitations in the current matching practices between people's financial needs and financial products in the UK

"The biggest issue is actually getting somebody to identify the fact that clients want to save for something. So there's lots of discussion about risk and pricing and lots of derivative, second order, third order issues. But the biggest gap is the fact that most people do not understand that it will be a good idea to save. That is the first client need. There's an economic hurdle in that lots of people can't afford to save. But when they can afford to, they do not understand the maths, the enormity of, in a sense, what they should be doing."
(Financial Services Expert)

"We started in the last few years with impact investing, social investing, because people are getting more aware that their money can be used for purposes that they disagree with in terms of values. But that's only one measure. There are other things that could be important for people in terms of values. When we looked at social and corporate responsibility, we did it because the regulator asked us. In banking there isn't a push to do things good for clients' purposes."
(Financial Services Expert)

L2. LIMITATIONS IN THE ORGANIZATIONAL SYSTEMS AND PROCESSES TO IDENTIFY CLIENT NEEDS

Irrespective of the taxonomies used for identifying client needs, our interviewees point out that system and processes adopted by financial institutions often bring into the identification of client needs biases, sometimes systematic, which compound with the limitations in the taxonomies outlined above.

T5 – Legacy organizational systems and processes enable path dependency for updating client needs

"Today we have potentially more choices, but as we cannot process them we stick with the known. Then once we stick with the known we end up in a path of dependency that might even be suboptimal for us. This might be enabled and accelerated and amplified by digital technologies."
(Financial Services Expert)

"There's a huge problem in the UK about the onboarding of a client. If you are a foreigner and you come to the UK, you can't open a bank account; it's very difficult. So there are things in retail banking that we don't even see. We don't see that being able to easily open a bank account is an important service that you can provide. This is because the way in which banks tackle customer needs is path-dependent and does not take into account that client needs need to be constantly updated. Digital banks got that. They say their customers can open a bank account in 10 minutes. That's an example of capturing a need and making money with that. When [name removed] started they were selling two products: the first was a pre-paid card; the second was called, "you open an account in 10 minutes". That's when you move away from returns and investments."
(Financial Services Expert)

T6 – Process digitization increases speed of service (when it does) ...

In terms of digital technology use and adoption, the FCA has been highly supportive of innovation in the UK financial sector. This is evident from the large number of challenger banks and fintech firms that have received authorizations in recent years to test innovative digital products and services in a controlled environment. The FCA has published guidance on the regulatory characterisation of different types of digital assets (e.g., cryptosystems) to help market participants to understand whether they fall inside or outside of the regulatory perimeter. However, our interviewees report that the compliance-driven nature of legacy systems and the standardization of compliance processes are the biggest barriers to deploy digital at scale and to create online seamless and personalized experience (interruptive and standardized vs seamless and personalized experience). Digital deployment at scale needs a whole new way of thinking, designing and executing to permeate the financial sector. It also requires new mechanisms and metrics to identify and measure client needs and financial products' suitability at different stages. As pointed out by one of our respondents:

"The core of the business must become about the ability to deliver banking experiences to consumers when and where they need it, in real-time. This requires a leadership team that understands technology is at the core of what they do. But more than that, they must understand the bank is no longer a collection of products distributed across channels, but experiences which surface the utility of the bank to a consumer contextually. Digital technologies increase the speed of financial

2. Expert views on the limitations in the current matching practices between people's financial needs and financial products in the UK

services to create seamless and hyper-personalized experiences."

(Financial Services Expert)

"Now with the speed of digital technologies there is probably less financial sophistication because clients are not thinking about the financial product - they're thinking about the need that they're trying to satisfy. Before, they might have had to think about the need, but they would have had to go and talk to somebody at a bank who would work out for the customer what the right credit options were or what the bank was willing to do, or what product service they were offering. Now digitally, customers have got a lot of choice: it's very quick and easy, and they don't have to go through lots of forms to get credit or open a savings account or whatever. It's just become a lot faster and a lot quicker, and that decision is made at the point of sale, and it's almost fulfilled at that point of sale. Banks and fintechs have more of a responsibility to be more transparent because everything just happens a lot faster."

(Financial Services Expert)

"In a world where it is very difficult to differentiate your proposition based on your risk or return, you have to search for additional different products and services to differentiate yourself and create stickiness with the client. For example: Concierge. Our clients are rich. They want to get into the opera, into the most exclusive restaurants, so [name removed] created a concierge service but they went one step further. They have a digital concierge. Clients could just go digitally into the concierge and find tickets for stuff that nobody else could get access to. They're going to say things like, my wife is desperate to get this particular object and I would really like to surprise her, how do I do that? Or, I really would like to see this opera, do you have a concierge? That's value. Access is value. You call me any day. There are so many examples of that. In retail, it is more difficult, but you can still do it. You can still have benefits and vouchers and stuff like that. So, you need to add quality of customer relationship management to your risk and return proposition and in this the speed of digital can make the difference."

(Financial Services Expert)

T7 – ...but it amplifies biases

Our interviewees agree that digitisation has increased speed of suitability, for instance, by making controls automatic. This has had a positive effect on speed of service but has increased underlying biases.

"It's hard to imagine anybody with anything above the most simple needs having a satisfactory service experience with the traditional retail banks. For example, my father is 92 years old. He banks with [name removed]. Logging in to get online with his account is a nightmare. It's incredibly difficult. He wanted a new chequebook, so he tried for three days to get through to the bank. Eventually he gets through to someone and they arrange a chequebook. He wants to make automatic payments for his [name removed], but this is a separate company and you can't access it through [name removed] bank. You have to go to [name removed]. I help him set up an online account and right at the end of this half-hour process it says, 'You will now receive electronic statements,' with no opt out. He doesn't want electronic statements; he wants paper statements, so he cancels the whole process. Their whole approach to customers is so unhelpful, un-user friendly. They're so out of touch with the needs of their clients and I could give you so many examples of these ongoing problems, both online and in-person. The quality of service, it's like an old train service when it was nationalised. It's tragic."

(Financial Services Expert)

"When people can't get something to work, they've got to get through very quickly, not have an hour wait on a phone or be put through to the wrong department or press seven if you want to hear the main menu again. This is not quality online support. What you can see from advanced businesses like Amazon, like Google - these highly-driven digital businesses – is that the quality of support has got really good. It used to be bad 10 years ago but now it's really good. If you want support from Google, you can get it. You can talk to a human faster than you can talk to somebody at [name removed] or [name removed] Bank. If these traditional elephant businesses want to compete in the digital world, they've got to completely up their game in terms of integrated, connected product service offerings, and they're miles away at the moment, is my experience."

(Financial Services Expert)

"Three years ago, [name removed] had 70 human advisors with all their own preps and kit. Now with all these new regulations they have none. They have bot advisors. Of course, those bot advisors don't give you impartial advice, they only point you to [name removed] products, which are great products. They offer active savings accounts, SIPs, ISOs, Fund of Funds, share bond trading, pensions. These are rich products, but when you deal with the bot advisor it will only point you to [name removed] products."

(Financial Services Expert)

2. Expert views on the limitations in the current matching practices between people's financial needs and financial products in the UK

Our interviewees acknowledge that Machine Learning, AI, and Advanced Analytics are three of the most efficient ways of collecting clients' needs and preferences, both in terms of speed and amount of data they are able to elaborate. They can easily identify patterns and rapid changes in customer behaviour in a fraction of the time a person needs to do the same job. The main issue remains how to use these enormous sets of data to create useful products for consumers.

"People need to be guided to some things that are appropriate for them. The industry solution is often to provide a website and in some cases, chatbots and AI. The information is there if you know where to look for it but it's difficult for somebody who doesn't know. It's not a question about education; it's literally if you don't know much about finance it's really difficult to understand what's an ISO and what's a SIP. What's the difference between a debit card and a credit card - it kind of looks and feels the same."

(Financial Services Expert)

"I think the website is enough for the initial point of onboarding, but you get a less personal touch or approach when the onboarding process is just on screen. If the main motivation of companies is to have a customer onboard as quick as possibly, potentially that conflicts with the objective of ensuring that the customer completely understandes what they're about to access in terms of the product."

(Financial Services Expert)

"People are now living in a digital-driven world, so they expect the same level of digitalization and innovation in every interaction they have with a company, regardless of the product or the service they are buying. They expect an experience that is seamless. However, the traditional banking sector has struggled to reach a competitive technological level, allowing smaller data-driven companies such as fintechs to grow together with their availability of data which they use to deliver improved experiences. As the amount of data and trust in these new-generation companies grow, the array of products and services they are able to offer broadens too, threatening traditional providers' profits and credibility."

(Financial Services Expert)

"10 years ago my wife and I fell in love with a plot of land and decided to build a house. [...] We could not get advice - our IFA had no experience in self-build and we were turned down by our banks even though we had properties and the collateral to guarantee the loan. We had to investigate and find the information for ourselves. Luckily, [name removed] was just making a big retail entrance into the UK and it behaved like an **old traditional bank manager as opposed to a computer system** that scored you based on your income and your liabilities. The bank manager for [name removed] visited our site and listened to our vision. Yes, he looked at our finances but he was personally able to underwrite and sign off the mortgage. Financing was quite an experience, and there is a significant gap in advice. It requires quite a bit of serious knowledge of regulation and it doesn't come out that easily. It's not something that you can ask with some checklist in some automated chatbot. I guess it's very expensive. It requires a lot of talent and **AI and advanced analytics cannot substitute it**."

(Financial Services Expert)

"One of the problems with AI is that there is massive under-investment in technology and online offering by the banks and the quality of their AI offering is so bad in comparison to the United States, for example. It's hard to imagine anybody who has anything above the most simple needs could have a satisfactory service experience with the current AI and digital banking systems."

(Financial Services Expert)

2. Expert views on the limitations in the current matching practices between people's financial needs and financial products in the UK

L3.– REGULATION-INDUCED LIMITATIONS

T8 – Regulation favours information (over) accuracy which does not convert into knowledge for the client. **Our interviewees consistently report that regulatory requirements lead to very accurate information. Yet, especially when financial products are complex, information accuracy quickly becomes information overload and knowledge scarcity for the clients. Many banks place the responsibility on the customer to read through page after page of risk disclosure and product description (accuracy vs simplicity). Overall, many banks still maintain a box-ticking process based on administration and compliance, rather than advisor or customer experience. As pointed out by our interviewees:**

"All I have to do is tick five boxes, which lets the provider off the hook in a big way because they've asked the questions, they've sent the questions over to compliance, compliance has said, "Yeah, this looks fine." But what people do not actually have is an understanding of the product or service that they're buying. And it is because taxonomies focus on capturing clients' risk attitude, but they completely lose sight of the why, of what their intrinsic goals are."
(Financial Services Expert)

"There's lots of regulations. The best thing is the old maxim, 'Keep it simple, stupid.' So it needs a real focus on five key messages to help clients get closer to an optimal outcome and simplicity stripped of technical language and, in a sense, advice before you get into the regulated space. I think of it in terms of what you would put on a poster at a bus stop or bus station. The financial education that I was working on was very much along these lines. When a client tries to take action, they come up against the obfuscation of the City or the savings industry in terms of the use of language. Some of the startups are trying to cut through this, but it requires wordsmithing and distilling down very complex concepts while still meeting the FCA requirements."
(Financial Services Expert)

"The first thing should be simplification. You talk to me about some types of products speak to me in a simple language I understand. That's the first thing. Second, simplification of access. I want information on something and I need to be able to find it easily. Simplification of pricing. Don't tell that there is this price, that price, this price according to what I want. You give me very simple pricing. So simplification of solutions. I don't want to have 27 flavours of loans. Come back to me with a simple solution. If I have two bank accounts and two pensions I want to have a very easy way to have everything in front of me. So, I think of the biggest needs for people is not return, not risk. It is simplification. Language, access, proposition, pricing, whatever."
(Financial Services Expert)

"Why is a financial product not simple? A financial product is not simple because of the product itself. The issues you're trying to address often are complex and if you simplify you lose something in the accuracy. As a provider of financial product I fear I will fail some sort of regulatory requirement, sacrificing accuracy for simplicity. So that's the one issue. The simplicity of access is definitely something that can be done a lot more. The barriers to providing that are often more to do more with financial institutions trying to protect their turf."
(Financial Services Expert)

"Often pricing is complex because a fund doesn't cost half a percent. There's a management fee, an administration fee, and you only know the administration fee after the event. In fact, the regulator has done so much work with it. They've got whole templates on it which run into pages to explain the pricing. I don't think anybody's going to read it. When I've read it, I struggled, to be honest. It would be useful to say, actually why don't you just take last year's fee and round it up. Then you can say, this is expected to cost you 1%. That's much easier, even if it's not 100% accurate. Then you can have the annex which has the accuracy in it, if someone's interested in it. There needs to be a regulatory step."
(Financial Services Expert)

"The solutions are too complex. There are too many options competing. Look at how many funds there are. There's thousands of flavours of funds. Now I'm a capitalist and I would like to encourage that but it's confusing for someone who is not an expert. One solution would be for either the industry or the regulator to have some sort of simplified labelling of what this thing actually is. Funds already have a macro description of some of these things. Only experts really need to know the difference between this fund and that fund."
(Financial Services Expert)

2. Expert views on the limitations in the current matching practices between people's financial needs and financial products in the UK

"People outside of finance think that money is very complicated, and they can't understand it. And banks, in general, play on that. If you look at the advertising they use for savings and investment, it very often refers to very complex things and says to customers, 'We'll take care of this complexity. We understand it.' And they are pushing people back, saying, 'We have expert knowledge, trust us.' So some of the messaging that savings and investment give is to make savings very complex and push people away. Banks need to demystify and simplify their communication of very complicated concepts. The market leader will be the company that dares to and explains the importance of price and what, for savings, price does to destroy value over decades"
(Financial Services Expert)

T9 – Regulation favours stability but reduces discretionary power. Related to the point above there is the issue of lack of discretionary power at the managerial level and over regulation problems lead to solutions and products that protect the downside but do not necessarily give the best return for clients (compliance vs value). As pointed out by our interviewees:

"The push is always to be compliant with regulation. I think the UK is exceptional, definitely compared to European regulators. The FCA is really trying to establish certain principles about conduct, about value for money and about fairness to the client. We are very lucky that we are in a regulatory environment that is pushing in the right direction."
(Financial Services Expert)

"Regulators make possible this notion of restriction or simplified advice, where under this regulatory framework, I can provide advice while deliberately excluding a whole lot of stuff that I should know about that client's circumstances. This is amplified by the centralization and control imposed by the FCA. There is large consensus on the fact that both GDPR and FCA requirements are overwhelming the system and strangling the business."
(Financial Services Expert)

"Partly the problem is the FCA. Not just the FCA but it's this endless outpouring of compliance requirements, like GDPR, the database thing. The amount of work that this insane legislation put on business and on institutions like banks is almost overwhelming their discretionary power."
(Financial Services Expert)

"It seems that in the banks, everything is controlled so the actual power to make decisions has been completely taken away from most levels of management. This is absolutely procedure-driven, compliance-driven. Managers in banks have so little discretion".
(Financial Services Expert)

"The regulations around suitability talk about record keeping. They talk about the amount of information required. They talk about advice that you can give, do's and don'ts, what you can and can't say. They talk about how long you should hold records for. It's just a minefield and the firms who are doing this have to invest so much money and they probably resent it because they're still living in their heyday where they could get commissions on products and link them to certain providers. It's complex, it's burdensome and it's a monster of exercise to do!"
(Financial Services Expert)

"There needs to be a framework where maybe a finance institute or someone is able to provide advice on a light basis with some explicit regulatory protection. Maybe something like the FCA doing random visits on a monthly basis and if you sell the wrong thing they shut you down. But it can't be the application of the in-principled law that those principal rules the FCA does for the wider regulatory framework can't really work in this space. It needs something a bit more explicit to give people comfort that they are able to charge for it appropriately but not be exposed to going to jail. You want to charge 100 pounds for, like, 15 minutes."
(Financial Services Expert)

2. Expert views on the limitations in the current matching practices between people's financial needs and financial products in the UK

"If the regulator could somehow incentivize banks to educate and create a balance. It's kind of a stick and carrot method, with a stick, say, if you make mistakes we're going to penalise you, or with a carrot you say, 'If you go above and beyond than what we need, just for good practice and to help people then you receive something in return.'"

(Financial Services Expert)

"Something like an ISA wrapper, a Junior ISA, is a brilliant product. It's tax-free. I mean, why wouldn't you use it? But clients don't get the best out of it. Most sit there and they have cash and that's just completely misunderstanding risk. So, a client need is met in the sense that there's some savings made, but it's completely failed in terms of, is it optimal? A bank is not able to tell people to buy risk because that breaches all the FCA rules. You can't tell people. You can walk them through a story. There's an opportunity cost in them not buying any risk and sitting there in cash."

(Financial Services Expert)

L4 – ASYMMETRIC INCENTIVES BETWEEN BANKS AND CLIENTS

One area in which asymmetric incentives materialise is already being discussed as limitation in the taxonomies for the identification of client needs: there is very little incentive to incur these extra costs. Second, we have also highlighted the fact that legacy systems are slowly replaced, and banks do very little to mitigate the negative effects of digitization, while fostering the efficiency gains. There are three other specific areas in which these asymmetric incentives materialize: (a) lack of incentive for increasing client value; (b) lack of incentive for increasing client education; (c) lack of incentive to provide advice.

T10 – Search for the profit / price triggers... overshadows search for client value triggers. Despite the attempt of the FCA to protect clients and some more or less genuine attempts from banks to offer more value for their clients, in the vast majority of cases profit is the main trigger, after compliance has been taken care of.

"Banks ask questions not to meet client needs but to meet compliance needs/regulations. Banks are terrified of a compliance mistake. Compliance is ruling the bank's behaviour. We then had a multitude of forms to fill in. Many of them were ridiculous questions. All of it was about compliance. [...] Nothing was about offering."

(Financial Services Expert)

"Banks mostly focus on the mechanics. They say, here is your portfolio, these are your assets, these are your liabilities, look, your return has gone up by 0,4% and your risk has gone down by 0,7% in the last six months. Some [private] clients are really attentive to that and the other clients are much more interested in when you're going to do your next proposal for how to manage the exit of the company, how to pass the fortune to their children. That's outcome in wealth management. When I used to meet clients in wealth management they would never speak to me about the return, ever. They would tell me things like, I am going to retire in three years and my son is an idiot, what am I going to do with my company? Isn't it an issue of segmentation of the market? They're not asking the right questions. **They should search for the value triggers, not the price triggers**."

(Financial Services Expert)

"It became very obvious to us that because our clients were old they were very interested in what would happen to them once they retire. So we created a new product, and this product was not even a financial product. It was a series of events and workshops for them and their children to talk about passing wealth. By going one layer down in understanding what is important to them we were able to create a product. It's not what you would assume is a financial product because there is no risk or return. But it was the most sticky product that we had because clients loved it. So, yes, they were happy to give away a little bit of return on their portfolio. 'Who cares, because now I can take my stupid son who doesn't understand responsibilities to a series of events that [name removed] has organised where we're going to talk about that.' So in that case the product was education. You cannot measure that in risk and return, but was it valuable to the client? Yes. Could we charge for that? Yes! You stop being mono-dimensional and mechanical. They're just not buying the portfolio. "

(Financial Services Expert)

2. Expert views on the limitations in the current matching practices between people's financial needs and financial products in the UK

T11 – Search for the profit / price triggers... overshadows incentives for educating clients.

"The problem is that the financial industry has no interest in financial education. There is not enough of it. I think there should be more. Especially if your focus is on retail customers, because there is a world of inclusivity and financial inclusion, not just in the UK, but all over. There are examples such as [name removed]'s model which stemmed from the fact that it believed that there was a simpler way to give lots of retail customers access to a cheaper and easier to use way of converting currencies that didn't need the increased cost of what a bureau de change or a bank would charge. So, it's still not enough, but I'd like to think that it's started."

(Financial Services Expert)

"I have friends that often say, 'I'd like to do something now that helps me accumulate wealth for my latter years, but it's really, really, really intimidating, it's confusing. I don't know where to compare, what to access, what to do.' So, if we could coordinate somehow the suitability of a product and a service with education, we might see a higher percentage of people that are suitable in time, which is in everybody's interests."

(Financial Services Expert)

"I would like a more interactive approach, maybe with the companies responsible. It's in the customer's and the financial institution's interests to have customers that are suitable, rather than having just more customers. More customers is great, but that's just one perspective and you have to ensure that the customers are protected and understand fully what they're about to enrol in. So, I feel like the point is education. Maybe from the regulator's standpoint engaging with investment firms and having more training camps or education camps for the process of becoming a customer. Proper education should form part of that: a real intention to educate people in how to accumulate wealth."

(Financial Services Expert)

"In the UK you stay away from advice unless you're [name removed] or [name removed] and your clients have half a million to really justify offering advice. This has created something that people call it the advice-gap, the investment-gap, the pension-gap. Last time I looked at it the retirement-gap was 350 billion in the UK and it goes up. Somebody told me that 320 000 people retiring each year and most of these don't have or never had access to advice. So I suppose if you look at client needs the first need is that they have is access to some kind of simplified advice. Some people have savings but not a huge amount. When they're going to retire it's not about investment or return vs risk; some people need financial education, so they need to know what to do with their 20 000 pounds. Even if they don't get advice they need to be told there are things called ISAs. Education is a very important service that needs to be provided. It cannot be defined as return or risk."

(Financial Services Expert)

T12 – Search for the profit / price triggers... overshadows need for advice (in retail).

In the UK there is a massive advice gap. Only wealth managers give advice. People need education on financial products, but the retail provider and IFA cannot educate them because they do not have any incentive to do that. There is a liability and there is a cost associated, because it takes time to do a due diligence on the client, and then even when a due diligence is done, clients can sue, that is a very expensive things to get through (cheap vs expensive advice). The results are inflexible solutions that fall short of the client's expectations and lead to poor customer experience. As pointed out by our interviewees:

"I'm not talking about investment banking; I'm talking about retail banking and financial advice. The quality of people wanting to go into retail banking is quite different from 20 years ago, maybe even 10 years ago. Traditionally, it was a good job 20 years ago to work for a bank. Now they do not pay enough money, it is not interesting, it is better to go and work for [retailer - name removed]. That is one of the problems. If you're not attracting the right people, are they going to be the right people for taking the client through a journey to help them consolidate their requirements or have more sophisticated products and services? No, they're not. It's all tied in with under-investment. They're under-investing in people, they're under-investing in advising, they're under-investing in product offering, and they're under-investing in online. They're under-investing in branches. I think it's a real short-termism that's driving banks. Everything now is pushing to short-term, bottom-line delivery and there's a real lack of long-term investment."

(Financial Services Expert)

2. Expert views on the limitations in the current matching practices between people's financial needs and financial products in the UK

"In the retail space the basic investment product offered is actually what people want. Where it fails is very much around the investment proposition when advice is given. In the UK there's a gold standard for giving financial advice. The FCA's rules are excellent and there's little to disagree with. The problem is the retail investor. If you had 10 000 pounds to invest, an IFA cannot spend even half an hour talking to you and assisting your financial needs. It's not because you don't deserve it. It's literally how much must the financial advisor be paid in order to provide that. This is because there is even more adverse selection in wages in the retail banking labour market and in the IFA incentives for advising."

(Financial Services Expert)

"The regulator is being very vague about what advice means. What is advice and when does it become guided etc. I just think the industry, and I include the regulator, really need to sit together and decide on something that is guided, what is within that parameter, very clearly. Because we can't even get through the basics of me being able to tell you something, fundamentally. Retail investors below, I'd say 200 000 pounds, 150 000 pounds, don't get advice. That's the reality. The FCA knows it. There's a massive advice gap. The vast majority don't get any advice and actually they're the ones who most need some nudge towards the right thing to do. If a millionaire loses 50 000 pounds, terrible for them but does society feel sorry for them? No. If someone loses 10 000 pounds, and that's their life savings it's a disaster."

(Financial Services Expert)

"Most people don't have 100 000 to invest. They literally have 10 000, 20 000. Maybe it shouldn't be invested but that's another discussion. Whatever it is they need to do with that money, the type of financial advice they need cannot be provided at the standard that the regulator wants. So, as an industry, we do that poorly. What is required is something in between where the regulator needs to give some legal protection to the person providing, let us call this slim-down advice, so that advice can be given to retail. Most retail investors don't really need very sophisticated advice. They need to hear, 'look you've 10 000 pounds, you should not invest all your 10 000 pounds in Bitcoins'. That would be a really stupid idea. I think that people will value that sort of advice a lot but that isn't getting through to the retail space because it's too expensive to provide that advice."

(Financial Services Expert)

"Nobody in the UK wants to give advice: there are no incentives for IFAs to give advice. The word advice frightens people. Only wealth managers give advice. There is no advice in UK. There was advice until 2010 when you could, for example, walk into [name removed] where there was an entire network of advisors in the branches who would give you advice. Today? There's no advice. What we give is guidance. Why? When you give advice, you take an enormous liability. In order to give that advice, there is a liability and associated cost because it takes time to do due diligence on the client, and even when you do the due diligence they can sue you."

(Financial Services Expert)

"I think something like 86% of people in the UK, or people that are saving in the UK, do not have access to any form of advice. What happened? Two things. One, was the definition of advice changed but also the way that advisors were paid changed. A very important piece of regulation came out about 10 years ago that changed completely the way advice happens. Before, if you were an advisor you were not paid directly by the people that you advised, you were paid as a retrospective by the people that were selling the product. I advise you to get the [name removed] and the [name removed] would pay me. The way that the advisor tried to manage the conflict of interest was by having lots of different providers so that they could say to you, you know everybody pays me so I choose the best for you. That was not right but what FCA did, it said, okay no retrospective any more. The advisor needs to be paid in the same way as an accountant or a lawyer or how a professional service person would be paid. You now have to charge directly for advice and advice is expensive. If a client has 20 000 pounds to invest and it costs 3000 pounds to have advice, they probably won't get advice and the advisor won't give it because they don't want people asking them 'Why do you take 3000 pounds from somebody who only has 20 000 pounds?'"

(Financial Services Expert)

3. People's perceptions of the limitations in the current practices on how financial needs are matched with financial products in the UK

The limitations described in Chapter 2 and summarized in Table 2 emerged from our field research. To shed more light on the extent to which clients "feel" the same limitations and investigate their impact on their behaviors, we designed and administered a survey in which each limitation identified in Table 2 was translated into a question. To account for potential differences across different financial products we controlled for three types of financial products: investment ISA; mortgage; insurance (the questionnaire that was administered is available upon request from the authors of this research). We administered the survey in the UK during Winter 2020 using Amazon Mechanical Turk (MTurk). We obtained 249 replies. Table 3 shows the demographics of our sample.

In Table 4 opposite we report the averages (and standard deviations in parenthesis) of the answers given for each question. Answers are both reported at the aggregate level (in column 2) and broken down by financial product category in the subsequent columns – i.e., Investment and ISA products (column 3); Mortgages and Loans (column 4); Insurance products (column 5). Table 4 shows some clear patterns.

First, there seems to be little difference in replies across the different financial products – i.e., responses are consistent irrespective of whether respondents were considering investments, ISA products, mortgages, loans, or insurance products. This suggests that the limitations identified in this study are general, and not idiosyncratic to a specific financial product.

Table 3. SAMPLE DESCRIPTIVE STATISTICS (N = 249)

Variable	%*
Gender	
Female	30%
Male	70%
Other	1%
Age	
18-24	18%
25-29	20%
30-34	21%
35-44	29%
45-54	9%
55-64	3%
65-74	1%
Level of education	
No schooling completed	1%
Some high school, no diploma	4%
High school graduate, diploma or equivalent	24%
Bachelor's Degree, professional qualifications or other equivalent higher education qualifications	45%
Master's Degree	22%
Ph.D. or higher	5%
Employment status	
Employed Full-time (32+ hrs pw)	58%
Employed Part-time (less than 32 hrs pw)	12%
Self employed	12%
Homemaker / Full-time career	2%
Retired	1%
Full time Further / Higher education	8%
Not employed	7%
Income	
Less than £25,000	26%
£25,001 - £50,000	38%
£50,001 - £75,000	20%
£75,001 - £100,000	12%
More than £100,000	4%

*Sums may not add to 1 for rounding reasons.

3. People's perceptions of the limitations in the current practices on how financial needs are matched with financial products in the UK

Second, respondents highlight their satisfactions about how financial advisors explain the mechanics of the proposed financial products (Question 12a: average satisfaction 4.06 out of 5). In this line, respondents also feel that access to information 24/7 via digital technologies - e.g., websites, apps, automated conversation software such as chatbots, etc. - has helped them make a better choice for their financial product (Q14: average satisfaction 4.06 out of 5).

Third, our survey also shows that information exchanges are not always fully satisfactory. For instance, people's confidence that the questions asked by financial advisors are adequate for revealing their level of knowledge of how financial products work is not strong (Q11: average satisfaction 3.45 out of 5). Answers to Q21 suggest a note of caution when considering the deeper reliability of the information exchanged through digital channels: 61% of respondents state that they speak more openly when interacting face-to-face against 14% who speak more openly when they interact with an automated conversation software (e.g., chatbot).

Fourth, respondents' feelings seem to be not optimistic at all in relation to financial advisors' ability to identify their needs (Questions 9, 12c, and 12d). For instance, in Q9, respondents' average is 1.93 (out of 5). Along the same lines, (Q12c) respondents on average score 1.90 (out of 5) on the extent to which the financial advisor enquired about how the financial product matches their overall life goals. Q12d shows a similar pattern: according to our respondents, financial advisors on average fail in revealing the deepest needs and emotions related to the financial product (average 1.98 out of 5).

Finally, respondents also find the quality of the interactions with financial advisors (Q12b) unsatisfactory (average satisfaction 2 out of 5) and asymmetric. On the latter, in question Q15 respondents overwhelmingly believe that financial advisors mostly care about providing products that are regulatory-compliant (27%) or that maximize the bank's own profits (40%). Only a small minority of respondents (4%) feel that financial advisors are interested in providing the best product for clients.

In complementary analyses not reported here (but available on request from the author of this research), we also checked whether these results depend on Gender, Age, Education, Employment, and Income. Our analyses show that these variables have no systematic statistically significant impact on the answers reported in Table 4.

3. People's perceptions of the limitations in the current practices on how financial needs are matched with financial products in the UK

Table 4. SURVEY RESULTS (N=249)

Questions	Averages (SD) across all answers n=249	Averages (SD) for Investment and ISA products n=105	Averages (SD) for Mortgages and Loans n=115	Averages (SD) for Insurance products n=16
Q1 Do you feel confident that the questions that the financial advisor asked you were adequate for understanding your financial situation and your real needs? Definitely not: 1 – Definitely yes: 5	1.93 (0.67)	1.93 (0.68)	1.88 (0.37)	1.69 (0.48)
Q2 Do you feel confident that the questions that the financial advisor asked you were adequate for revealing how potential losses in your investment would make you feel? Definitely not: 1 – Definitely yes: 5	2.00 (0.93)	1.97 (0.85)	1.94 (0.91)	1.8 (0.54)
Q3 To what extent did the financial advisor discuss your broader financial goals that prompted you to ask about the financial product? Not at all: 1 – Thoroughly: 5	1.98 (0.69)	2.01 (0.66)	1.92 (0.68)	1.81 (0.40)
Q4 To what extent did the financial advisor enquire about how this financial product matches your overall life goals? Not at all: 1 – Thoroughly: 5	1.90 (0.82)	1.90 (0.88)	1.90 (0.75)	1.56 (0.51)
Q5 Do you feel that the questions that the financial advisor asked were in line with the opportunities and challenges of the times we are living in? Definitely not: 1 – Definitely yes: 5	2.98 (0.92)	2.97 (0.89)	2.97 (0.95)	2.69 (0.87)
Q6 Based on your experience, do you feel that access to information 24/7 via digital technologies – e.g., websites, apps, automated conversation software such as chatbots, etc. – has helped you making a better choice for your financial product? Definitely not: 1 – Definitely yes: 5	4.06 (0.91)	4.13 (0.81)	4.02 (0.93)	3.81 (1.17)
Q7 Based on your experience, when you interact with an automated conversation software (e.g., chatbot) for expressing your financial needs, do you answer more openly than when you speak face-to-face with a financial advisor? More openly when interacting with chatbots: 1 More openly when interacting face-to-face: 2 Equally openly when interacting digitally or f2f: 3 Never speak openly: 4	• More openly when interacting with chatbots: 14% • More openly when interacting face-to-face: 61% • Equally openly when interacting digitally or face-to-face: 22% • Never speak openly: 3%			

3. People's perceptions of the limitations in the current practices on how financial needs are matched with financial products in the UK

Table 4. SURVEY RESULTS (N=249) CONTINUED

Questions	Averages (SD) across all answers n=249	Averages (SD) for Investment and ISA products n=105	Averages (SD) for Mortgages and Loans n=115	Averages (SD) for Insurance products n=16
Q8 To what extent did the financial advisor explain the mechanics of the financial product proposed and how it works? Not at all: 1 – Thoroughly: 5	3.67 (0.90)	3.62 (0.96)	3.68 (0.86)	3.63 (0.72)
Q9 Do you feel confident that the questions that the financial advisor asked you were adequate for revealing your level of knowledge of how financial products work? Definitely not: 1 – Definitely yes: 5	3.45 (0.98)	3.46 (1.00)	3.50 (0.98)	3.13 (0.89)
Q10 Do you feel that the interaction with the financial advisor was sufficiently thorough to lead to a proper identification of your needs? Not at all: 1 – Thoroughly: 5	2.00 (0.81)	2.00 (0.82)	1.94 (0.75)	1.69 (0.48)
Q11 Based on your experience, do you feel that your financial advisor was interested in providing you... (please select all that apply) The most regulatory-compliant advice: 1 The product/advice that maximizes bank's profits: 2 The best product for you: 3 Other: 4	• The most regulatory-compliant advice: 27% • The product/advice that maximizes bank's profits: 40% • The most regulatory-compliant advice & The product/advice that maximizes bank's profits: 23% • The best product for you: 4% • Other: 2%			
Q17 Overall, after speaking to the financial advisor, did you feel that you had enough information and understanding to make an informed choice on the financial product? Min: 1 – Max: 4	2.07 (0.70)	2.06 (0.70)	2.03 (0.69)	2.00 (0.37)
Q19 Did you end up buying the product you enquired about? No: 0 – Yes: 1	0.44 (0.50)	0.40 (0.49)	0.50 (0.50)	0.38 (0.50)

4. The role of purpose in client needs identification

Our field research described in Chapter 2 and our survey described in Chapter 3 both point to clear limitations in the current practices through which people's financial needs are identified. One such limitation is in client taxonomies: extant taxonomies do not seem to be comprehensive enough to capture people's financial needs. How to improve on current client taxonomies is the focus of this chapter.

Currently, client taxonomies are mostly, if not exclusively, aimed at checking client income stages and client attitude towards risk. To investigate how to complement / improve existing taxonomies we embarked on a systematic review of the academic literature on people's financial needs[2]. Not surprisingly, most of the needs refer to Income stages and Attitude towards risk (Please refer to Appendix 1). Yet, the analysis of the literature also allowed us to identify ten other needs that were not linked to income stages or risk attitude. Below, we list such needs (please see Appendix 2 for definitions):

- Fulfilling basic necessities
- Safety
- Plan for retirement
- Enhancing one's life
- Self-actualization
- Financial independence
- Love / Belonging
- Generational transfer
- Make the world a better place
- Leaving a legacy

We then reviewed these needs, their definitions and antecedents (Appendix 2). This further analysis allowed us to classify these needs into three areas:

- **Needs related to making a difference for oneself**
  - E.g., Basic necessities, Safety, Plan for retirement, Enhancing your life, Self-actualization, Financial independence
- **Needs related to making a difference for one's family**
  - E.g., Basic necessities, Safety, Love / Belonging, Financial independence, Generational transfer
- **Needs related to making a difference for the broader community**
  - E.g., Make the world a better place, Leaving a legacy

We believe that broader needs complement the current taxonomies based on Risk attitudes and Income stages and we believe that questions aimed at revealing these needs should be added to existing client taxonomies. In Figure 4 we report our suggested Taxonomy to identify more holistically people's financial needs. **We call this taxonomy, the Purpose Taxonomy in which we suggest a way to add purpose-oriented questions in current client taxonomies.**

2. To conduct our analysis of the literature, we used SCOPUS and we searched for «financial needs» in titles, abstract and paper keywords. The focus of our search was 2010 - March 2020. Our initial screening of the literature returned 1,169 documents. We then limited the subject areas to: «Social and Behavioral Sciences», «Economics, Econometrics and Finance», «Business, Management and Accounting», «Psychology», «Consumer Behavior», and «Computer Science». This second screening of the literature returned 664 documents. We downloaded the full documents in PDF format and saved their associated references into a bibliographic package. We carefully read the title, abstract, and, in some cases, the full text, before deciding on classifying each as "in-scope" or "out-of-scope" based on their actual fit with the topic of people's financial needs. This process returned 116 papers. We read these papers and identified a "long list" of 148 financial needs. We then classified the people's financial needs related to income stages and risk attitude (see Appendix 1) and to people's purpose (see Appendix 2).

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Figure 4: THE PURPOSE TAXONOMY (LANZOLLA & PESCE, 2021)

People's purpose		Risk Attitudes			Income stages	Type of interaction
Making a difference for	Specific need	Cognitive risk tolerance (low; medium-low; moderate; medium-high; high)	Emotional composure (low, medium-low; moderate; medium-high; high)	Knowledge and market engagement (low, medium-low; moderate; medium-high; high)	• Growth • Accumulation • Decumulation	
Yourself	1a. Basic necessities					
	2a. Safety					
	3. Plan for retirement					
	4. Enhancing your life					
	5. Self-actualization					
	6a. Financial independence					
Your family	1b. Basic necessities					
	2b. Safety					
	7. Love / Belonging					
	6b. Financial independence					
	8. Generational transfer					
Your community	9. Make the world a better place					
	10. Leaving a legacy					

Testing the Purpose Taxonomy™

To test the significance and robustness of our Purpose Taxonomy we designed several empirical studies. The overarching goal of these studies was: a) to assess people's confidence that their financial needs are more properly identified when purpose-oriented questions are added to the traditional risk attitude and income stages questions; b) to assess people's likelihood of buying financial products when purpose-oriented questions are added to the traditional risk attitude and income stages questions.

Of course, financial needs might be affected by whether people are searching for products for investment or for borrowing. As such, we decided to run our empirical tests both for investment and borrowing decisions.

Specifically, for both investment and borrowing decisions, with the help of senior City practitioners, we designed[3] "twin questionnaires". One questionnaire – the baseline questionnaire – contains the questions typically asked by financial advisors.

3. Please contact the authors of this research for the complete questionnaires. .

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Specifically, we asked six questions about demographics; five questions about risk attitude for the investment decisions survey (four for the borrowing decision survey); one question about income stages for the investment decisions survey (three for the borrowing decision survey). In this baseline questionnaire one of the five questions about risk attitude is asked through two different formulations.

The second "twin" questionnaire contains exactly the same questions, but we substitute one of the risk attitude questions with our purpose-oriented question. Specifically, in this twin questionnaire we asked: *How would you like to use the proceeds from your investment?* and we offered respondents three options: making a difference for yourself; making a difference for your family; making a difference for your community.

All questionnaires were anonymous and there was no way to identify the respondents.

Overall, in winter 2020 we ran 4 surveys in the UK (n = 1465):

- Baseline and twin survey for investment decisions (n = 727)
- Baseline and twin survey for mortgage decisions (n = 738)

The descriptive statistics of these studies are in Tables 5 and 6.

Table 5. DESCRIPTIVE STATISTICS: INVESTMENT DECISION (N = 727)

Variables	Obs	Mean	Std. Dev.	Min	Max
1. Gender	727	1.706	0.471	1	3
2. Age	727	2.945	1.328	1	7
3. Level of education	727	4.062	0.92	1	6
4. Access to banking services	727	2.575	0.575	1	4
5. Familiarity with digital banking	727	1.619	0.732	1	4
6. Employment status	727	2.285	1.965	1	7
7. Income level	727	2.338	1.127	1	5
8. Digital vs face-to-face setting	727	0.466	0.499	0	1
9. Question about risk tolerance	727	3.245	1.031	1	5
10. Question about risk composure	727	1.977	0.858	1	3
11. Question about market knowledge	727	2.56	1.032	1	5
12. Investment managed directly	727	1.425	0.495	1	2
13. Question about purpose (taxonomy)	354	1.599	0.545	1	3
14. Question about risk composure (placebo)	373	2.542	1.043	1	5
15. Confidence ... investment needs	727	3.18	1.142	1	5
16. Likelihood of buying	727	3.429	0.943	1	5

4. The role of purpose in client needs identification

RESULTS AND DISCUSSION.

Table 7 (investment decisions) and Table 8 (mortgage decisions) show results of OLS model estimations when our variables are regressed against: a) people's confidence that their financial needs are properly identified (Models 1 to 4 in both Table 7 and Table 8); b) people's likelihood of buying financial products (Models 5 to 8 in both Table 7 and Table 8). The dependent variables are likert scales and so we estimated OLS models with robust standard errors to consider heteroskedastic effects. We also estimated ordered logistic regression models that directly account for the ordinal nature of the outcome variables. All models return results which are qualitatively similar and here, for parsimony, we only report OLS models with robust standard errors.

Models 1 to 4 in both Table 7 and Table 8 show that the addition of purpose-oriented questions significantly increases people's confidence that financial institutions have correctly understood their investment needs (variable 13 in Model 4 in Table 7 is both positive and highly significant $p < .001$) and borrowing needs (variable 14 in Model 4 in Table 8 is both positive and highly significant $p < .001$). The R-sqrd values increase from 2.5% to 51.4% (Model 3 to Model 4 in Table 7) and from 7.6% to 41.4% (Model 3 to Model 4 in Table 8).

Likewise, Models 5 to 8 in both Table 7 and Table 8 show that the addition of purpose-oriented questions significantly and massively increases people's likelihood of buying the suggested investment product (variable 13 in Model 8 in Table 7 is both positive and highly significant $p < .001$) and mortgage (variable 14 in Model 8 in Table 8 is both positive and highly significant $p < .001$). The Adjusted R-sqrd values increase from 4.4% to 43.7% (Model 7 to Model 8 in Table 7) and from 4% to 42.5% (Model 7 to Model 8 in Table 8).

Table 6. DESCRIPTIVE STATISTICS: MORTGAGE DECISION (N = 738)

Variables	Obs	Mean	Std. Dev.	Min	Max
1. Gender	738	1.7	0.479	1	3
2. Age	738	2.997	1.359	1	7
3. Level of education	738	4.008	0.92	1	6
4. Access to banking services	738	2.443	0.673	1	4
5. Familiarity with digital banking	738	1.778	0.792	1	3
6. Employment status	738	2.299	1.961	1	7
7. Income level	738	2.301	1.11	1	5
8. Digital vs face-to-face setting	738	0.516	0.5	0	1
9. Mortgage down payment	738	3.042	1.188	1	5
10. Mortgage repayment vs income	738	3.438	1.165	1	5
11. Question about risk tolerance	738	2.912	1.041	1	5
12. Question about risk composure	738	1.808	0.777	1	3
13. Question about market knowledge	738	3.153	1.105	1	5
14. Question about purpose (taxonomy)	367	2.526	1.021	1	5
15. Question about risk composure (placebo)	371	1.671	0.555	1	3
16. Confidence ... investment needs	738	3.183	1.131	1	5
17. Likelihood of buying	738	3.29	1.117	1	5

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Overall, our results show that the addition of purpose-oriented questions significantly increases: a) people's confidence that their investment and mortgage needs are more properly identified when purpose-oriented questions are added to the traditional risk attitude and income stages questions; b) people's likelihood of buying investment or mortgage products when purpose-oriented questions are added to the traditional risk attitude and income stages questions.

Robustness checks. As shown in Tables 7, 8 and 9, the R-sqrd values increase markedly when our taxonomy variable is included as a predictor. This might reflect a common factor underlying the predictor and the outcome variables. To shed more light on this potential issue, we ran two other surveys as robustness checks. One reason that our models might return biased results is the choice of the order of the questions in the baseline and twin questionnaire. To check for this effect, we changed the order of the questions in the baseline and twin questionnaire. We administered this new survey in the UK in Winter 2020 (n = 200). Results reported in Table 9 confirm that changing the order of the questions does not change the results. In Model 3 and Model 6, the coefficient of Purpose Questions is both positive and significant. The Adjusted R-sqrd values increase from 6.3% to 39% (Model 2 to Model 3 in Table 9) and from 7.4% to 40.9% (Model 5 to Model 6 in Table 9).

Another reason that our models might not return generalizable results is related to the choice of the geographical context. To check for this effect, we ran our survey in the USA (n = 206). Results are reported in Table 10. Once more, in Model 3 and Model 6, the coefficient of Purpose Questions is both positive and significant. The Adjusted R-sqrd also increases from 14.1% to 51.9% (Model 2 to Model 3 in Table 10) and from 12.8% to 60.7% (Model 5 to Model 6 in Table 10).

Although other robustness tests should be conducted to probe further the generalizability of our results, the current analyses suggest that the adoption of the Purpose Taxonomy described in Figure 4 is correlated to: higher levels of people's confidence that their financial needs are correctly identified; and higher people's likelihood of buying the suggested financial product.

4. The role of purpose in client needs identification

Table 7. RESULTS OF OLS MODELS ON PEOPLE'S LEVEL OF "CONFIDENCE THAT FINANCIAL ADVISOR HAS SUFFICIENTLY UNDERSTOOD THEIR INVESTMENT NEEDS" (MODELS 1 TO 4) AND PEOPLE "LIKELIHOOD OF BUYING THE PRODUCT RECOMMENDED BY THE FINANCIAL ADVISOR" (MODELS 5 TO 8)

	(Model 1) 15. Confidence... investment needs (b/se)	(Model 2) 15. Confidence... investment needs (b/se)	(Model 3) 15. Confidence... investment needs (b/se)	(Model 4) 15. Confidence... investment needs (b/se)	(Model 5) 16. Likelihood of buying (b/se)	(Model 6) 16. Likelihood of buying (b/se)	(Model 7) 16. Likelihood of buying (b/se)	(Model 8) 16. Likelihood of buying (b/se)
1. Gender	0.070 *(0.09)*	0.070 *(0.09)*	0.091 *(0.10)*	0.089 *(0.07)*	-0.010 *(0.08)*	0.001 (0.08)	0.018 *(0.08)*	0.017 *(0.06)*
2. Age	-0.035 *(0.04)*	-0.035 (0.04)	-0.032 *(0.04)*	-0.039 *(0.03)*	0.040 *(0.03)*	0.038 *(0.03)*	0.044 *(0.03)*	0.039† *(0.02)*
3. Level of education	0.059 *(0.05)*	0.059 *(0.05)*	0.069 *(0.05)*	0.051 *(0.04)*	0.020 *(0.04)*	0.019 *(0.04)*	0.021 *(0.04)*	0.008 *(0.03)*
4. Access to banking services	0.035 *(0.08)*	0.035 *(0.08)*	0.040 *(0.08)*	-0.001 *(0.05)*	0.105† *(0.06)*	0.103 *(0.06)*	0.113† *(0.06)*	0.082 *(0.05)*
5. Familiarity with digital	0.169 *(0.14)*	0.168 *(0.14)*	0.180 *(0.14)*	0.074 *(0.11)*	0.043 *(0.12)*	0.032 *(0.12)*	0.025 *(0.13)*	-0.054 *(0.10)*
6. Employment status	*dummies included*	*dummies included*	*dummies included*	*dummies included*	*dummies included*	*dummies included*	*dummies included*	*dummies included*
7. Income level	-0.053 *(0.04)*	-0.052 *(0.04)*	-0.059 *(0.04)*	-0.031 *(0.03)*	-0.023 *(0.04)*	-0.022 *(0.04)*	-0.028 *(0.04)*	-0.008 *(0.03)*
8. Digital vs face-to-face setting		-0.015 *(0.09)*	-0.001 *(0.09)*	-0.047 *(0.06)*		-0.208** *(0.07)*	-0.189** *(0.07)*	-0.223*** *(0.05)*
9. Q. about risk tolerance			0.079 *(0.05)*	0.042 *(0.04)*			0.114** *(0.04)*	0.087** *(0.03)*
10. Q. about risk composure			0.043 *(0.06)*	0.024 *(0.04)*			0.026 *(0.05)*	0.012 *(0.04)*
11. Q. about market knowledge			-0.085 *(0.05)*	-0.024 *(0.04)*			-0.085* *(0.04)*	-0.040 *(0.03)*
12. Investment managed directly			-0.109 *(0.09)*	-0.087 *(0.07)*			-0.075 *(0.07)*	-0.059 *(0.06)*
13. Question about purpose (taxonomy)				1.605*** *(0.06)*				1.188*** *(0.05)*
_cons	2.875*** *(0.34)*	2.882*** *(0.34)*	2.806*** *(0.36)*	2.190*** *(0.25)*	3.043*** *(0.28)*	3.148*** *(0.28)*	3.005*** *(0.28)*	2.549*** *(0.23)*
R-sqrd	0.014	0.014	0.025	0.514	0.014	0.026	0.044	0.437
N	727	727	727	727	727	727	727	727

† p < 0.10, * p < 0.05, ** p < 0.01, *** p < 0.001
Robust standard errors in parentheses

4. The role of purpose in client needs identification

Table 8. RESULTS OF OLS MODELS ON PEOPLE'S LEVEL OF "CONFIDENCE THAT FINANCIAL ADVISOR HAS SUFFICIENTLY UNDERSTOOD THEIR BORROWING NEEDS" (MODELS 1 TO 4) AND PEOPLE "LIKELIHOOD OF BUYING THE PRODUCT RECOMMENDED BY THE FINANCIAL ADVISOR" (MODELS 5 TO 8)

	(Model 1) 16. Confidence... borrowing needs (b/se)	(Model 2) 16. Confidence... borrowing needs (b/se)	(Model 3) 16. Confidence... investment needs (b/se)	(Model 4) 16. Confidence... borrowing needs (b/se)	(Model 5) 17. Likelihood of buying (b/se)	(Model 6) 17. Likelihood of buying (b/se)	(Model 7) 17. Likelihood of buying (b/se)	(Model 8) 17. Likelihood of buying (b/se)
1. Gender	-0.019 *(0.09)*	-0.019 *(0.09)*	-0.003 *(0.09)*	0.004 *(0.07)*	0.050 *(0.09)*	0.050 *(0.09)*	0.064 *(0.09)*	0.072 *(0.07)*
2. Age	-0.061† *(0.03)*	-0.061† *(0.03)*	-0.070* *(0.03)*	-0.061* *(0.03)*	-0.028 *(0.03)*	-0.028 *(0.03)*	-0.033 *(0.04)*	-0.023 *(0.03)*
3. Level of education	0.007 *(0.05)*	0.008 *(0.05)*	-0.038 *(0.05)*	-0.025 *(0.04)*	0.014 *(0.05)*	0.015 *(0.05)*	-0.025 *(0.05)*	-0.012 *(0.04)*
4. Access to banking services	-0.055 *(0.06)*	-0.054 *(0.06)*	-0.005 *(0.06)*	-0.016 *(0.05)*	-0.096 *(0.06)*	-0.095 *(0.06)*	-0.059 *(0.07)*	-0.070 *(0.05)*
5. Familiarity with digital	0.087 *(0.15)*	0.083 *(0.15)*	-0.056 *(0.15)*	-0.108 *(0.12)*	0.090 *(0.14)*	0.087 *(0.15)*	-0.023 *(0.15)*	-0.079 *(0.11)*
6. Employment status	*dummies included*	*dummies included*	*dummies included*	*dummies included*	*dummies included*	*dummies included*	*dummies included*	*dummies included*
7. Income level	0.061 *(0.04)*	0.061 *(0.04)*	-0.023 *(0.04)*	-0.028 *(0.03)*	-0.023 *(0.04)*	-0.023 *(0.04)*	-0.084† *(0.04)*	-0.089** *(0.03)*
8. Digital vs face-to-face setting		0.064 *(0.08)*	0.074 *(0.08)*	0.041 *(0.06)*		0.042 *(0.08)*	0.049 *(0.08)*	0.013 *(0.06)*
9. Mort. down payment			-0.004 *(0.04)*	0.012 *(0.03)*			0.013 *(0.04)*	0.030 *(0.03)*
10. Mort. repayment vs income			-0.042 *(0.04)*	-0.045 *(0.03)*			-0.050 *(0.04)*	-0.053 *(0.03)*
11. Q. about risk tolerance			0.190*** *(0.04)*	0.187*** *(0.04)*			0.133** *(0.05)*	0.129*** *(0.04)*
12. Q. about risk composure			-0.014 *(0.06)*	0.006 *(0.05)*			-0.040 *(0.06)*	-0.019 *(0.04)*
13. Q. about market knowledge			0.153** *(0.05)*	0.150*** *(0.04)*			0.124** *(0.05)*	0.121*** *(0.04)*
14. Question about purpose (taxonomy)				1.318*** *(0.06)*				1.391*** *(0.06)*
_cons	3.095*** *(0.35)*	3.061*** *(0.35)*	2.689*** *(0.39)*	2.008*** *(0.33)*	3.474*** *(0.33)*	3.452*** *(0.33)*	3.249*** *(0.35)*	2.531*** *(0.28)*
R-sqrd	0.023	0.024	0.076	0.414	0.010	0.011	0.040	0.425
N	738	738	738	738	738	738	738	738

† p < 0.10, * p < 0.05, ** p < 0.01, *** p < 0.001
Robust standard errors in parentheses

4. The role of purpose in client needs identification

Table 9. CHANGED ORDER OF THE QUESTIONS IN THE QUESTIONNAIRES. RESULTS OF OLS MODELS ON PEOPLE'S LEVEL OF "CONFIDENCE THAT FINANCIAL ADVISOR HAS SUFFICIENTLY UNDERSTOOD THEIR INVESTMENT NEEDS" (MODELS 1 TO 3) AND PEOPLE "LIKELIHOOD OF BUYING THE PRODUCT RECOMMENDED BY THE FINANCIAL ADVISOR" (MODELS 4 TO 6)

	(Model 1) 15. Confidence... investment needs (b/se)	(Model 2) 15. Confidence... investment needs (b/se)	(Model 3) 16. Likelihood of buying (b/se)	(Model 4) 15. Confidence... investment needs (b/se)	(Model 5) 16. Likelihood of buying (b/se)	(Model 6) 16. Likelihood of buying (b/se)
1. Gender	0.045 *(0.19)*	-0.047 *(0.21)*	-0.084 *(0.18)*	0.209 *(0.18)*	0.065 *(0.21)*	0.027 *(0.17)*
2. Age	-0.035 *(0.07)*	-0.016 *(0.08)*	-0.026 *(0.06)*	0.030 *(0.08)*	0.052 *(0.08)*	0.041 *(0.06)*
3. Level of education	0.013 *(0.09)*	-0.009 *(0.09)*	0.032 *(0.07)*	-0.038 *(0.09)*	-0.074 *(0.09)*	-0.032 *(0.08)*
4. Access to banking services	-0.226 *(0.15)*	-0.153 *(0.15)*	-0.174 *(0.12)*	-0.004 *(0.17)*	0.114 *(0.17)*	0.092 *(0.13)*
5. Familiarity with digital	0.435 *(0.41)*	0.075 *(0.42)*	0.186 *(0.36)*	0.110 *(0.47)*	-0.255 *(0.47)*	-0.141 *(0.32)*
6. Employment status	*dummies included*	*dummies included*	*dummies included*	*dummies included*	*dummies included*	*dummies included*
7. Income level	-0.043 *(0.08)*	-0.055 *(0.08)*	-0.040 *(0.07)*	0.018 *(0.08)*	0.006 *(0.08)*	0.021 *(0.06)*
9. Q. about risk tolerance		0.236* *(0.10)*	0.191* *(0.09)*		0.271** *(0.10)*	0.226** *(0.8)*
10. Q. about risk composure		0.089 *(0.12)*	0.119 *(0.09)*		-0.005 *(0.12)*	0.026 *(0.10)*
11. Q. about market knowledge		0.029 *(0.12)*	0.024 *(0.10)*		-0.049 *(0.11)*	-0.054 *(0.09)*
12. Investment managed directly		-0.169 *(0.18)*	-0.194 *(0.15)*		0.076 *(0.19)*	0.050 *(0.14)*
13. Question about purpose (taxonomy)			1.376*** *(0.14)*			1.418*** *(0.14)*
_cons	3.411*** *(0.66)*	2.773*** *(0.78)*	2.057** *(0.62)*	3.253*** *(0.70)*	2.850*** *(0.80)*	2.112*** *(0.62)*
R-sqrd	0.034	0.063	0.390	0.039	0.074	0.409
N	200	200	200	200	200	200

† p < 0.10, * p < 0.05, ** p < 0.01, *** p < 0.001

Robust standard errors in parentheses

4. The role of purpose in client needs identification

Table 10. QUESTIONNAIRE ADMINISTRATED IN THE USA (N = 206). RESULTS OF OLS MODELS ON PEOPLE'S LEVEL OF "CONFIDENCE THAT FINANCIAL ADVISOR HAS SUFFICIENTLY UNDERSTOOD THEIR INVESTMENT NEEDS" (MODELS 1 TO 3) AND PEOPLE "LIKELIHOOD OF BUYING THE PRODUCT RECOMMENDED BY THE FINANCIAL ADVISOR" (MODELS 4 TO 6)

	(Model 1) 15. Confidence... investment needs (b/se)	(Model 2) 15. Confidence... investment needs (b/se)	(Model 3) 15. Likelihood of buying (b/se)	(Model 4) 15. Confidence... investment needs (b/se)	(Model 5) 16. Likelihood of buying (b/se)	(Model 6) 16. Likelihood of buying (b/se)
1. Gender	0.093 *(0.20)*	0.087 *(0.19)*	0.135 *(0.15)*	0.065 *(0.19)*	0.060 *(0.18)*	0.110 *(0.13)*
2. Age	0.010 *(0.08)*	0.012 *(0.08)*	-0.048 *(0.06)*	0.064 *(0.08)*	0.060 *(0.08)*	-0.003 *(0.06)*
3. Level of education	0.344* *(0.17)*	0.293† *(0.16)*	0.141 *(0.11)*	0.276† *(0.16)*	0.164 *(0.15)*	0.004 *(0.10)*
4. Access to banking services	0.099 *(0.13)*	0.123 *(0.13)*	0.058 *(0.11)*	0.157 *(0.13)*	0.238† *(0.13)*	0.169* *(0.08)*
5. Familiarity with digital	0.691† *(0.37)*	0.392 *(0.39)*	0.645* *(0.30)*	0.134 *(0.36)*	-0.251 *(0.35)*	0.014 *(0.21)*
6. Employment status	dummies included	dummies included	dummies included	dummies included	dummies included	dummies included
7. Income level	*0.054* *(0.11)*	*0.078* *(0.11)*	*0.098* *(0.09)*	*0.004* *(0.11)*	*0.042* *(0.11)*	*0.063* *(0.09)*
9. Q. about risk tolerance		0.385** *(0.12)*	0.258* *(0.10)*		0.363** *(0.12)*	0.230** *(0.08)*
10. Q. about risk composure		-0.147 *(0.12)*	-0.181* *(0.09)*		0.045 *(0.12)*	0.010 *(0.07)*
11. Q. about market knowledge		-0.019 *(0.12)*	0.065 *(0.10)*		-0.003 *(0.10)*	0.086 *(0.07)*
12. Investment managed directly		-0.210 *(0.24)*	-0.430* *(0.19)*		0.238 *(0.22)*	0.008 *(0.15)*
13. Question about purpose (taxonomy)			1.707*** *(0.14)*			1.788*** *(0.12)*
_cons	0.475 *(0.82)*	-0.432 *(0.99)*	0.642 *(0.69)*	1.185 *(0.79)*	-0.292 *(0.93)*	0.833 *(0.54)*
R-sqrd	0.069	0.141	0.519	0.049	0.128	0.607
N	206	206	206	206	206	206

† p < 0.10, * p < 0.05, ** p < 0.01, *** p < 0.001

Robust standard errors in parentheses

5. Conclusions and recommendations

Our analysis of expert views on the current practices in the UK on how people's financial needs are matched with financial products allowed us to identify twelve limitations (T1 to T12 in Table 11) which we clustered in four areas (L1 to L4 in Table 11). Our subsequent probing of such findings through a survey administrated in the UK in Winter 2020 (n = 240) confirmed that people feel strongly about these limitations. In the following Table 11 we summarize our findings and our considerations on the implications for financial service firms and the regulator.

Table 11. LIMITATIONS AND RECOMMENDATIONS FOR FINANCIAL SERVICE FIRMS AND FOR REGULATORS

Limitations ➜ Areas for improvement	Specific limitations emerging from the fieldwork	People's feelings about the limitations emerging from the fieldwork	Recommendations for financial service firms	Recommendations for the regulator
L1 **Limitations in the methods for identifying client needs**	T1 – Current methods for identifying people's financial needs are not fit for purpose	People feel that their broader financial needs are not fully understood.	Should develop more up-to-date taxonomies to include client purpose. We suggest the adoption of the Purpose Taxonomy.	Should urge financial service firms to innovate their client taxonomies and make them more client purpose-oriented. Should consider introducing client needs listening spaces along with the other suitability processes. These client listening spaces should be less regulated but mandatory. These client listening spaces might become areas of competitive differentiation for financial service firms thus fostering innovation, too.
	T2 – Functional needs identification trumps emotional needs identification			
	T3 – Single and static client's needs identification overshadows holistic and dynamic client's needs identification			
	T4 – Client purpose is overlooked			
L2 **Limitations in the organizational systems and processes to identify client needs**	T5 – Legacy organizational systems and processes enforce path dependency for updating client needs (firms are following an advisor-centric journey rather than a customer-centric one)	People appreciate the increased availability of product information, but they are also wary of potential for systematic biases. People state that they feel less open in expressing their needs when interacting digitally.	Should build systems to probe / correct "decisions" from legacy systems and potential biases when client needs are captured from digital channels.	Should ask financial service firms for concrete action plans to fight path dependency and biases, especially when client needs are gathered from digital channels.
	T6 – Process digitization increases speed of service (when it does) ...			
	T7 – ...but it amplifies biases			

5. Conclusions and recommendations

Limitations ➜ Areas for improvement	Specific limitations emerging from the fieldwork	People's feelings about the limitations emerging from the fieldwork	Recommendations for financial service firms	Recommendations for the regulator
L3 Regulation-induced limitations	T8 – Regulation favours information (over) accuracy which does not convert into knowledge for the client	People feel that the information sharing objectives have been achieved. Yet, they feel that their needs are not fully understood.	Depending on client segmentation: should provide more simple products; OR should engage in deeper client needs discovery interactions	Information sharing and process dependability objectives have been achieved. Yet, this has happened at the expense of deeper client needs' identification and fulfilment. Should consider asking to introduce less regulated, yet mandatory and complementary, spaces to foster differentiation and innovation. The client needs listening spaces is an example of such spaces.
	T9 – Regulation favours stability but reduces discretionary power			
L4 Asymmetric incentives between financial service firms and clients	T10 – Search for the profit / price triggers... overshadows search for client value triggers	People feel that financial services goals are first and foremost compliance and profit maximization.	Should bring client value maximization at the forefront of their client strategy. Our research shows that it pays both in terms of sustainability and commercially,	A case might be made that regulation is constraining financial service approach towards client value maximization. Other corrective actions should be introduced to give people more confidence in a more even relationship between financial service firms and people.
	T11 – Search for the profit / price triggers... overshadows incentives for educating clients			
	T12 – Search for the profit / price triggers... overshadows need for advice (in retail)			

5.1 RECOMMENDATIONS FOR REGULATORS

Our research shows that regulators have achieved several goals. Notably, people feel that product-related information sharing is adequate and financial service / client process dependability is robust. Furthermore, digitization and standardization have enabled, in some cases, lower costs for financial products and this, arguably, has the potential to increase financial inclusion. However, as highlighted in Table 11, cases might be made that some other objectives have not been fully achieved. Specifically, our study shows that:

- Financial service firms do not fully recognize people's financial needs beyond simple, and in isolation from one another, functional needs;
- Information sharing does not necessarily translate into more informed choices;
- Both legacy systems and digitally mediated client / financial service firms interactions potentially introduce biases in suitability processes;
- People feel that financial service firms prioritize compliance and profit maximization over offering clients the best "matching" product.

As is often the case, there are no easy solutions to address these challenges. Yet, overall, we believe that the limitations identified in this research require a partial shift in focus for the regulator.

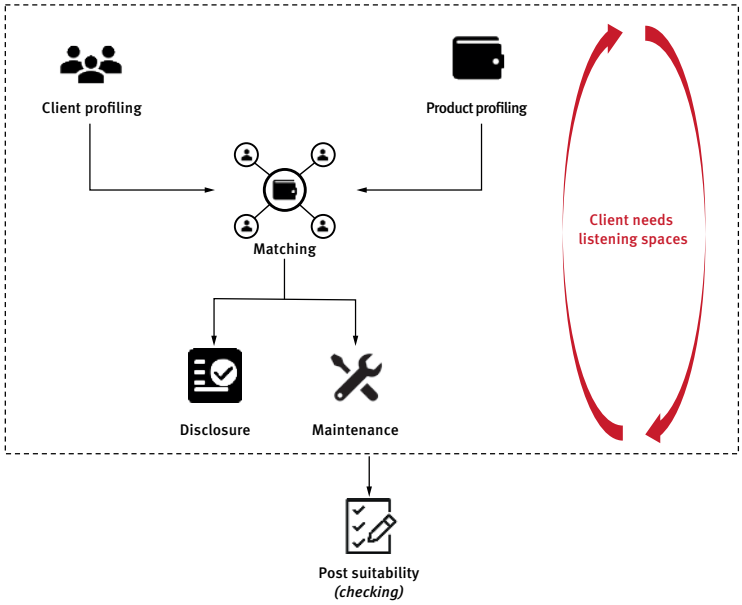
5. Conclusions and recommendations

Specifically, we believe that the regulator should build on the successful aspects of the suitability processes and complement them with less regulated, yet mandatory, spaces where financial service firms should engage with clients at a deeper level. This does not mean that financial service firms should all offer private bank-like services: it means that financial service firms should be given spaces where they can innovate.

Specifically, **we recommend that the regulator should consider allowing for some client needs listening "spaces".** These spaces should complement the other parts of the suitability processes, not substitute them. Here we would like to highlight that the introduction of such client needs listening spaces should be done very carefully. Specifically, we highlight that the interactions between suitability processes and these listening spaces might create some unexpected outcomes. **As such, we recommend that the regulator should regulate how to enable complementarities among these processes, rather than substitution.**

Our research has shown that the current suitability process in the UK has not yet tackled the asymmetric balance of forces between financial institutions and people. Overwhelmingly, both experts and people feel that the relationship between financial institution and client is still massively asymmetric and that this leads to suboptimal matching of financial products with client needs. **We recommend that the regulator should develop further actions to offset this power imbalance.**

Figure 5: CLIENT NEEDS LISTENING SPACES



5. Conclusions and recommendations

Finally, respondents to our surveys feel that education should play an important role to rebalance these asymmetries. At the same time, respondents cast some doubts on the extent to which information provided by financial institutions are trustworthy. **We recommend that financial education should go beyond ad hoc information sharing and become a compulsory subject in the school curriculum.**

5.2 RECOMMENDATIONS FOR FINANCIAL SERVICE FIRMS

First, people feel that their deeper financial needs are not fully understood (Limitation 1 in Table 1). Our research (n = 2120) shows that adding questions about client purpose when investigating client financial needs significantly increases clients' perceptions that their financial needs are more accurately understood. Our findings are summarized in the **Purpose Taxonomy™**.

Our empirical research (n = 2120) shows that the use of the **Purpose Taxonomy™** not only increases clients' perceptions that their financial needs are more accurately understood, but also their propensity to buying financial products. **We recommend that financial institutions should adopt the Purpose Taxonomy™ to identify client needs.**

Figure 6: PURPOSE TAXONOMY (LANZOLLA & PESCE, 2021)

People's purpose		Risk Attitudes			Income stages	Type of interaction
Making a difference for	Specific need	Cognitive risk tolerance (low; medium-low; moderate; medium-high; high)	Emotional composure (low, medium-low; moderate; medium-high; high)	Knowledge and market engagement (low, medium-low; moderate; medium-high; high)	• Growth • Accumulation • Decumulation	
Yourself	1a. Basic necessities					
	2a. Safety					
	3. Plan for retirement					
	4. Enhancing your life					
	5. Self-actualization					
	6a. Financial independence					
Your family	1b. Basic necessities					
	2b. Safety					
	7. Love / Belonging					
	6b. Financial independence					
	8. Generational transfer					
Your community	9. Make the world a better place					
	10. Leaving a legacy					

5. Conclusions and recommendations

Second, our research shows that financial service firms should do much more to correct potential biases spurring from legacy systems and from interactions occurring via digital channels. Digitization is providing much more timely information, and this is appreciated by people. However, our research shows that people feel less inclined to be open about their needs when interacting through digital channels than when communicating face-to-face. We recommend that financial service firms should reconsider the following trade-offs.

5.3. IS THIS AN AREA FOR FINTECH'S INNOVATION?

The limitations identified in this research represent areas for Fintech innovation. Yet, our research also shows that knowledge of client needs may become the greatest driver of customer retention and profits in the future. Banks and legacy financial institutions today have access to more information about clients than ever before because of digital technologies. In other words, banks have a profound competitive advantage over the fintech sector due to their larger customer base, vast amounts of customer and transaction data, and years of know-how in the fields of payments, security, compliance, and financing. These advantages are difficult – but not impossible – to overcome by fintech companies. Fintech have been grappling with business model innovation and customer-centricity. Several legacy financial institutions and the major digital players such as Google, Apple, Amazon and Alibaba have also embraced customer-centricity. **We believe that successful financial services firms in the future will have to go the extra mile and move from customer-centricity to client purpose-centricity. For all financial services firms – legacy, Fintech or Big Tech – applying a client purpose-centric approach requires a shift in strategic focus, from being a provider of financial products and services to becoming a provider of "solutions".**

List of financial service experts

Michael Ayres	COO	Equiti Capital
Josh Blundell	Head of Research and Operations	The Wisdom Council
Peter Capper	Fund and Investment Risk Specialist	The Investment Association
Eva Dauberton	Retail Markets Specialist	The Investment Association
Greg Davies	Head of Behavioural Science	Oxford Risk Former Barclays Bank PLC MD
Massimiliano Delle Donne	COO and CFO	Kore Labs Ltd
Sabrina Del Prete	Founder and CEO	Kore Labs Ltd
Ian Max Ewart	CMO and Sales Former member of the executive committee	Acin Ltd Coutts
Alessandro Hatami	Managing Partner	Pacemakers.io
Vinay Jayaram	Co-founder and CEO	Envizage
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Halina Kogut	Senior Product & Marketing Specialist	Brown Shipley
Anna Lane	Chief Executive	The Wisdom Council
Mariachiara Lanzolla	COO	Private banking
Sharon Maguire	Chief Customer Officer	C. Hoare & Co
Peter Meddemmen	CTO	Kore Labs Ltd THETA Trading Technologies
Luca Oglina	Head of Risk	FNZ Ltd
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Don Scott	Senior risk and compliance leader	FNZ Ltd
Miranda Seath	Head of Market Insight	The Investment Association
James Sullivan	COO Former general counsel	ziglu.io Monzo
Jeremy White	Chairman	Integrity Capital plc White Capital Partners Whitefoundation

Appendix 1: Risk attitude and income stages

1. RISK ATTITUDE

1.1. Cognitive Risk Tolerance

Physiological risk tolerance measure is an expression of the long-term trade-off between risk and return in a portfolio. Higher risk tolerance indicates a higher risk (higher return portfolio), while low risk tolerance leads to a lower risk (lower return solution).

Individuals with high risk tolerance are more likely to accept the possibility of losing some of their wealth so that they can access the types of investments which might also achieve very high returns. People with a low risk tolerance are much more likely to be conservative in their trade-off between potential gains and losses. They will accept smaller potential gains so they can be confident of not losing a significant portion of their wealth.

The financial behaviour literature suggests these exemplary definitions of risk tolerance profiles:

- Low risk tolerance
  - You are uncomfortable with investments which may put you at risk of losing money and will accept a lower return over the long-term in exchange for minimizing the chance of negative outcomes.
- Medium-low risk tolerance
  - You are likely to be comfortable with making investments which may have limited potential for losses in exchange for higher returns.
- Moderate risk tolerance
  - You are comfortable with investments which may lead to some fluctuations in the value of your portfolio in exchange for the opportunity to achieve above-average increases in your wealth in the medium to long run.
- Medium-high risk tolerance
  - You are prepared to accept regular fluctuations in the value of your portfolio and are willing to take on higher risk than other people in the exchange for the opportunity to increase your wealth in the long run.
- High risk tolerance
  - You are comfortable with significant short-term fluctuations in the value of your investments in exchange for superior returns over the long-term.

The financial behaviour literature suggests these possible questions for assessing risk tolerance:

- I am willing to risk a significant amount of my investable wealth in order to get a good return
- In order to achieve high returns, I am willing to choose high-risk investments
- Even if I experienced a significant loss on an investment, I would still consider making risky investments
- I enjoy making speculative investments in specific assets with portions of my wealth
- It is likely I would invest a significant sum in a high-risk investment

1.2. Emotional Composure

Physiological composure measure is an expression of how the customer as an individual feels about, reacts to, and copes with uncertainty in financial situations. Composure differs from risk tolerance in that it refers more to a customer's short-term and emotional reactions to uncertainty.

Individuals with low composure are likely to experience more emotional stress from uncertainty, and also to worry more about short-term decreases in the value of their portfolio. They are likely to monitor their

Appendix 1: Risk attitude and income stages

portfolio more frequently and they are likely to appreciate more stable returns, as they place higher value on the emotional stability they get from certainty.

It is quite possible that two investors may have the same degree of risk tolerance for long-run portfolio outcomes, but that one feels far more day-to-day concern than the other in their interim periods. Some investors may therefore become stressed or anxious about the day-to-day fluctuations in the value of their portfolio despite being happy with the potential risk and return trade-off over their investment time horizon.

The financial behaviour literature suggests these exemplary definitions of composure profiles:

- Low risk composure
  - You are very sensitive to uncertainty which may put you at risk of losing money.
- Medium-low risk tolerance
  - You are more sensitive to uncertainty than many individuals, even when you can do little to influence future outcomes.
- Moderate risk tolerance
  - You are comfortable with investments which may lead to some fluctuations in the value of your portfolio.
- Medium-high risk tolerance
  - You are prepared to accept regular fluctuations in the value of your portfolio.
- High risk tolerance
  - You are comfortable with significant short-term fluctuations in the value of your investments.

The financial behaviour literature suggests these possible questions for assessing composure:

- It is likely I would invest a significant sum in a high-risk investment
- I am not easily bothered by things
- I fear for the worst
- I get stressed easily
- Uncertainty makes me uneasy, anxious or stressed

1.3. Knowledge and market engagement

Market engagement measure is an expression of the degree to which one is inclined to avoid or engage in financial markets. Market engagement acts as an indicator of whether one has a mental hurdle to investing in markets, usually due to a fear if the unknown or wrong timing.

Low market engagement suggests higher cognitive and emotional hurdles to overcome before an individual will consider a market-linked investment. This cognitive and emotional barrier could arise from a number of sources, such as:

- Being uncomfortable with financial markets
- Insufficient knowledge of financial instruments to take on financial decisions with confidence
- Insufficient time or personal incentives to undertake the effort they feel would be necessary before taking that first step into financial markets
- Avoidance of financial markets

Whatever the reason, if a customer has a low score it is likely they will be avoiding financial markets and will have to keep a portion of their wealth in cash or very low risk investments for their level of risk tolerance.

The financial behaviour literature suggests these exemplary definitions of market engagement profiles:

- Low risk composure
  - You are uncomfortable with financial markets and financial investments.
- Medium-low risk tolerance
  - You are uncomfortable with financial markets, even if you could be a risk taker in other aspects of your professional life.
- Moderate risk tolerance
  - You are comfortable with investments which may lead to some fluctuations in the value of your portfolio.
- Medium-high risk tolerance
  - You are prepared to accept regular fluctuations by investing.
- High risk tolerance
  - You are willing to participate in markets, as long as the risk/return features of an investment are appropriate.

The financial behaviour literature suggests these possible questions for assessing market engagement:

- Compared with holding cash, buying stocks and shares is too risky
- Investing in shares is not something I do, because it is too risky
- I would not put even a small amount of my money into high-risk investments
- Compared with other people I know I am prepared to take higher financial risks

Appendix 1: Risk attitude and income stages

2. INCOME STAGES

Financial needs are dynamic and change over time. To capture the dynamic nature of financial needs, we draw on the economic life-cycle theory of consumption that describes people's spending and saving habits throughout their lifetime. Modigliani and Brumberg developed the life-cycle theory of consumption in the early 1950s. The theory is that individuals seek to smooth consumption throughout their lifetime by borrowing when their income is low and saving when their income is high. In other words, the theory is based on the idea that people make intelligent choices about how much they want to spend at each age, limited only by the resources available over their lives. By **accumulating** and **decumulating** assets, working people can make provision for their retirement and tailor their consumption patterns to their needs at different ages, independently of their incomes at each age.

The model assumes that individuals build up financial assets - or take on debt - in their **growth** phase when their income is lower than their consumption, assuming future income will enable them to pay it off. They then **accumulate** wealth when their income is higher than their consumption to maintain their consumption level when they retire. During the decumulation phase, when their income is typically lower than consumption, individuals use their stock of assets.

The life-cycle theory replaced an earlier hypothesis developed by Keynes in 1937. Keynes believed that savings were just type of goods and that the percentage that individuals allocated to their savings would grow as their incomes rose. This assumption presented a potential problem in that it implied that as incomes grew, a savings glut would result, and aggregate demand and economic output would stagnate. Another problem with Keynes' theory is that he did not address people's consumption patterns over time. For example, a middle-aged family man typically consumes more than a retiree.

Although subsequent research has generally supported the life-cycle theory, it also has its strict assumptions. For example, the life-cycle theory assumes that people decumulate their wealth during old age. However, wealth is often passed on to children, or older people may be unwilling to spend their wealth. The theory also assumes that people plan ahead when it comes to building wealth, but many procrastinate or lack the discipline to save or invest. However, some people choose to work less when they are relatively young and continue working part-time when they reach retirement age. Another assumption of note is that those with high incomes can save or invest and have greater financial savvy than those on low incomes.

Appendix 2: People's purpose-oriented needs

Please contact the authors of this research for the full list of "first order" purpose-oriented needs emerging from the literature review of 148 needs. These "first order" client needs were subsequently classified into the ten "second order" needs listed below.

1. BASIC NECESSITIES

The most basic financial need is income to cover necessary living expenses of food, shelter, water, warmth, rest and health. Client financial needs at this level derive from their instinct to survive and include cash flow management for daily/ordinary living expenses, bills, and taxes.

At this level, many people do not have enough money for saving and they want to have access to microfinance credit and to free checking accounts for "keeping money in wallets by having no monthly fees, for sending, receiving and withdrawing money for free and with no exchange rate fees and for building a credit history" (interview).

In considering basic necessities, it is also important to take into account religious-approved financial products (e.g., Sharia-compliant financial products).

2. SAFETY

The second level of financial needs consists of safety needs. Safety or security needs relate to a client's need to feel safe and secure in their life and surroundings. Motivation comes from the need for law, order, and protection from unpredictable and dangerous conditions.

There are many examples of safety needs. First, to find stability and security, a person must consider their physical safety. This means seeking protection and insurance from the elements, violent conditions, or health threats and sickness. Second, an individual needs economic safety to live and thrive. This refers to the need for job security, stable income, and savings for "emergencies, rainy days, or other unexpected necessities" (interview). Third, once individuals have their basics under control, they need to protect their assets with different forms of insurance, such as auto and home insurance, travel emergency medical insurance, smartphone theft and damage insurance, etc.; in other words, any product that helps create resilience.

An emergency fund to cover unexpected expenses and income protection plans in case an individual is unable to work for any reason also fit into this level.

3. PLAN FOR RETIREMENT

The third level of financial needs is to plan for retirement, including profile pension scheme, pension plan-related products, and reserves in case of unemployment.

Into this level also fit longevity protection plans for transferring the risk of outliving the capital paid to the insurance and pension/retirement plan (so people do not have to worry about living longer than their insurance company predicted, aged care services, such as domestic assistance with gardening and laundry, needing to move to a more "age-friendly home", or home modifications and investment sequencing risk protection when people are periodically adding or withdrawing money from their investments (in retirement, it can mean that people earn a much lower internal rate of return than what they expected).

4. ENHANCING YOUR LIFE

The fourth level of financial needs is saving for specific goals that will enable people to do the things that bring "joy" into their life, to get ahead and to advance the standard of living.

Luxuries, travel, vacation, premium advantages, hobby and recreational items and esteem needs also fit into this level. Esteem needs are related to a person's need to gain recognition, status, and feel respected. In this vein, esteem need can be broken up into two additional categories: the need for respect from others which relates to achieving fame, prestige, and recognition and the need for respect from oneself, which relates to dignity, confidence, competence, independence and freedom.

5. SELF-ACTUALIZATION

The fifth level of financial needs is self-actualization and relates to the realization of an individual's full potential and the pursuit of personal growth. At this level, people strive to become the best that they possibly can be.

The need for self-actualization can manifest in different ways, such as obtaining skills, continued education, utilizing skills, knowledge and talents, pursuing life dreams and, more generally, seeking happiness.

Appendix 2: People's purpose-oriented needs

6. FINANCIAL INDEPENDENCE

The sixth level of financial needs is financial independence. Financial independence means an individual is able to live on income from pensions, investments or passive income such as dividends, royalties and rental income.

Financial independence often refers to the retirement years, but it can also mean the freedom to work how, when and where people like, "not having to worry about money" (interview).

7. LOVE / BELONGING

The seventh level of financial needs is love and belonging. This level outlines the need that humans - as social creatures that crave interaction with others - have for friendship, intimacy, family, and love.

It is important to consider that humans have the intrinsic need to give and receive love, or in other words, to feel like they belong in a group/family. When deprived of these needs, individuals may experience loneliness or depression. Love and belonging needs move from having children, building a family, ensuring children's education, giving gifts and planning a wedding, and other ceremonies.

8. GENERATIONAL TRANSFER

The eighth level of financial needs is generational transfer. This need is similar to the love/belonging one but refers explicitly to the passing on wealth activities aimed at leaving a legacy to heirs. In this vein, preparation of a will and estate planning also fit into this level.

9. MAKE THE WORLD A BETTER PLACE

The ninth level of financial needs is making the world a better place and refers to investments in environmental, social and governance (ESG) sustainability to have a positive long-term impact on society, human rights and environment.

For many people, the term ESG brings to mind environmental issues like climate change and resource scarcity. It is important to consider that these form an important element of ESG, but this financial need means much more. Into this level also fit social issues like a company's labour practices, talent management, product safety, data security and governance matters such as board diversity, executive pay and business ethics.

10. LEAVING A LEGACY

The tenth level of financial needs is leaving a legacy. Different from the previous need that concerns investing explicitly in ESG, leaving a legacy means making a difference in someone else's life, from charitable donations to a cause a person believes in, to religious contributions or charity payments.

Into this level also fit social crowdfunding activities and reward and donation crowdfunding.

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