Abrupt closure highlights challenges for financial planning

Financial planning seemed to offer a rare opportunity for growth in Germany. However, Commerzbank's decision to pull out of the market shows that success is not guaranteed. ***Torsten Engelbrecht*** reports

GERMANY'S FINANCIAL planning sector is currently undergoing its worst crisis ever. Institutions such as Deutsche Bank, Gerling, Advance Bank and Credit Suisse have either closed or radically restructured their financial planning divisions. The largest shakedown in the sector was the closure of Commerz Finanz-Management (CFM) a few months ago.

Commerzbank's subsidiary offered financial plans for affluent clients with more than €100,000 of assets, charging them €3,000 or more. It had described itself as a "market leader in financial planning" and enjoyed a special market position as a pioneer of all-inclusive, neutral financial management. In spite of this, CFM was shut down practically overnight.

Commerzbank justified the abrupt closure by citing the weak market environment, which had turned CFM into an unprofitable unit. However, critics cite numerous internal errors which contributed to CFM's demise, notably:

- its inflexible approach to financial planning
- an over-expensive computer system
- the separation of financial planning from customer presentation
- inadequate sales and marketing
- a dilemma concerning neutrality

Commerzbank will not comment on any of these criticisms, but experts say that CFM's approach was highly inflexible, practically stipulating that plans should consist of as much paper as possible and contain numerous analyses. Individual enquiries, returns and indicators were developed and dissected in detail, creating gigantic reports. Along the way, critics contend, CFM forgot that good financial planning should focus above all on the needs and objectives of the customer.

The minute detail given to figures was made possible by an expensive computer system, which alone swallowed €1 million a year, according to estimates. "IT costs were extremely high, considering the relatively small size of the company," confirms Wolfgang Reittinger, former head of CFM and now a top manager at UBS Private Banking in Frankfurt.

A further shortcoming was that financial plans drawn up by the back office were presented to the customers in Commerzbank branch offices. This meant that the customer did not meet the financial consultant who was responsible for the analysis. The overall process of integrated consultancy services was thus disrupted at a critical point.

To aggravate the situation, CFM sales staff was not sufficiently well trained. "Successful financial planning requires professionals with ample experience," says Jorg Richter, head of the Institute for Quality Control and Financial Service Standards in Hanover. "But German financial planners with the required experience are few and far between."

Not selling enough plans

In the end, CFM generated 800 financial plans per year, equal to less than one plan per Commerzbank branch office – indicating rather inefficient sales efforts overall. Reittinger maintains that "surveys revealed a relatively high 85 percent level of customer satisfaction." But he does admit that it would have been beneficial if a few more financial plans had been sold.

In addition, cultural barriers piled up. "By the end of the eighties, practically the entire German banking sector was gauged on the procedural standards of the consulting firm McKinsey, under the motto 'sell products, products, and more products'," according to Frank L Braun, chief executive of the consulting and software specialist MWS Braun. "This approach is still anchored deeply in the heads of German financial consultants." For this reason, German institutions have had a hard time consistently practicing the principle of product neutrality – a central characteristic of integrated financial planning – through all levels of the consultation process.

This produced a dilemma for CFM, which billed itself as a neutral financial adviser, stressing that "the customer always decides which financial institution carries out the financial proposals." But however laudable this approach may be, it was unlikely that customers would go to another institution after investing in Commerzbank's advice. Consequently they bought Commerzbank products, since the bank's product architecture was not open, by any means.

"All attempts to combine financial planning, as a so-called 'neutral' service, with the sale of products, are tenuous at best and doomed to failure at banks with limitations," sums up Richter, who is not alone in his opinion. "The closure of CFM demonstrates that German banks are not yet capable of integrated financial planning on the large scale."

Plenty of competition

Nevertheless, financial planning is far from dead because, on the whole, Germans are still dissatisfied with their banks' financial consulting services. And from a supplier's standpoint, financial planning generates an abundance of valuable data, providing an excellent platform for customer acquisition and support.

Some experts are convinced that financial planning is currently in the process of establishing itself as a replacement for the previously dominating sales approach of the big banks. This offers good chances for smaller, independent players. Such institutions need to focus squarely on customer needs and continually reflect these over the entire consulting process, creating a process-orientated approach as opposed to a results-oriented approach.

Moreover, a primary objective should be for cost efficiency over a "we must do everything ourselves" approach. One way of achieving this is to establish cross-referral networks with accountants and lawyers.

In spite of Commerzbank's withdrawal, insurance companies, savings banks and Deutsche Postbank are all showing increasing interest in financial planning. Specialist financial advisers such as AWD also hope to make further gains in market share. "The retreat of numerous institutions from the financial planning sector offers us an opportunity for growth, especially with less well-to-do customers," says Stefan Suska, deputy spokesman for AWD. ■