Hey! What's New? 2024-139

Using Behavioral Science in a Financial Planning Practice

Dave Strausfeld writes, in a recent issue of the *Journal of Accountancy*, that CPA financial planners who understand how psychological factors influence decision making can better work with clients and operate their practices more effectively. Strausfeld notes that this is the view of Michael E. Kitces, an author, speaker and head of planning strategy at Buckingham Wealth Partners. He adds that Kitces has several ideas for financial planning practices to consider.

Shorten Client Meetings: According to Kitces, overly lengthy client meetings can hinder a client's ability to arrive at a decision. After a 1½-hour meeting with a financial adviser, clients may think, "My brain is … tired. You ain't getting no decision from me at this point."

Focus Client Decisions: For similar reasons, Kitces suggests that advisers should be careful not to overwhelm clients with the number of decisions they must make simultaneously, because this can impede decision making, too. Instead, after a broader discussion, consider focusing on achieving one or two goals at a time, he recommends.

Another worthwhile technique, Kitces observes, is to have clients write down their priorities and set a written deadline for achieving them. This may help spur them to complete the tasks, because people are wired to feel socially obligated to follow through on written commitments, he says.

Understand The Effects of Fee Structures: Kitces also describes "choice architecture," which examines how the framing of choices influences people's decisions. "The difference between opting in versus opting out is especially important and has implications for financial planners' fee structures," Kitces notes. In one medical study, researchers found that, when individuals filled out forms asking if they were willing to be an organ donor (e.g., to have donor status listed on their driver's license), most people didn't have the mental bandwidth to make this consequential decision.

Kitces explains that most people think, "I've got other things to deal with; my brain is tired," and leave the box unchecked. Thus, they default to becoming organ donors if the form requires them to check a box to opt out. "Financial planners designing their fee structures should consider this insight into people's natural tendency toward inertia."

In some financial planning fee models, clients keep paying for the services unless they opt out, meaning the default option is to continue using the services. In contrast, with hourly billing, clients must make a fresh opt-in decision each time they have a new financial question to ask the adviser for which they'll be billed. The easiest choice is to forgo asking the question, saying, "I'm just going to not deal with it right now," Kitces said. Advisers should at least be aware of this behavioral difference.

Humanize Online Interactions: Another study Kitces shares demonstrates the benefits of personalizing online interactions with clients and prospective clients. The study found that radiologists "just seem to literally do a better job" of reading an X-ray when a photo of the patient was attached to it, because "the virtual patient was humanized."

Taking a cue from this study, Kitces says that his former firm began asking clients for permission to take a headshot photo when they were in the office and put it in their customer relationship management (CRM) record. That way, all members of the team, including back-office employees who might not meet with clients at all, weren't "just looking at a bunch of numbers in the CRM." The photos humanized the clients.

In addition, says Kitces, his former firm began posting one-to-two-minute videos of its advisers introducing themselves. Using videos rather than merely photos led to a rise in website- driven inquiries from potential clients, who "bonded with and picked their adviser" from the short video introductions. The videos humanized the advisers and led to an increase in business, he adds.

In sum, notes Kitces, "behavioral science can be a powerful tool for working with clients more effectively and operating a financial planning practice better."