



Accident Insurance: Would My Savings Suffice?

Background and Challenge

Financial planning has traditionally been the privilege for higher-income consumers. Financial advisors typically cater to people contemplating early retirement or strategising a purchase of a new vacation home. However, determining whether one's funds would be sufficient to sustain their lifestyle is vital for everybody. At Kidbrooke, we provide the technology that enables everyone, not only the most fortunate, to plan their financial future reliably, securely and accurately, while at the same time enabling financial advisors to deploy their most valuable asset, human advisor time, in the most efficient way possible from a business and revenue perspective.

A step outside the HNWI space often leads to the place where tools offered by the market-leading financial institutions fail to provide adequate help to the customers planning their financial lives or the lives of their families. Today's case study examines a real-life experience of a Swedish family who struggled to receive adequate help from the local wealth management service providers.

Sometimes accidents happen to children.

Despite the best efforts of the medical personnel, injuries may lead to a reduced ability to work in the future. In addition to an exhausting battle for the child's health and an immense emotional hardship, parents tend to face challenging financial dilemmas.

In the family we worked with, in addition to life-long social security payments, private insurance paid out a substantial lump sum when the person with special needs reached the age of 21 years. Of course, this payout cannot compensate for the loss of the quality of life, but it is designed to alleviate the financial stress experienced by the patient and her family.

Although the benefit was paid out, the dilemmas did not end. What is the best strategy to pursue regarding the premium? Is it a good idea to invest in the financial market or spend immediately? What would be the most appropriate pace for spending this money?

Putting OutRank in the hands of an independent financial advisor, we helped the family achieve peace of mind knowing that their funds would last if they followed the strategy suggested by our technology.



“It considers the entire personal balance sheet and income statement; both now and in the future.”

Technology: Why OutRank?

At first glance, the recipe for ensuring that the funds will last is simple: do not spend more than you earn or have saved up. However, the financial markets bring more complexity to this worldview. Depending on the riskiness level and the time horizon of the investment, you can potentially increase the funds available to you through investment returns. This is not a risk-free strategy, but it is reasonable to assume that investment risk will be rewarded with a positive return enhanced by compounding over a more extended period.

In the case of the family from our example, the plan was to spend more than they earn using the lump sum as a financial cushion. How would they determine whether the funds would last for the time they planned?

Commonly used planning tools used by the Swedish financial industry have several drawbacks:

- Personal finance is still quite siloed; retirement, housing, income, or savings are considered separately;
- The assumption of a static average return of investments rather than leveraging realistic models which model potential ups and downs of the market;
- Taxes and fees are not taken into consideration.

Given these limitations, the financial industry struggled to provide the family with a viable answer regarding whether they have sufficient funds to maintain their lifestyle or build genuine trust with their customers. The reason is apparent; it is not possible to make a good plan if you do not consider all the aspects of the situation.

OutRank has several features that address the limitations of standard tools used in the industry:

- It considers the entire balance sheet and income statement of a person; both now and in the future;
- It includes path-dependent calculations of taxes and fees;
- It can realistically forecast the future market developments according to the institutions' house views or expert estimates;
- It is fast enough to enable the interactivity of visualisations and create truly pedagogical financial experiences.

OutRank and the Standard Tools: Key Differentiating Factors

Before contacting us, the family applied for help from an established financial institution in Sweden. The advice produced by the Swedish bank centred around two scenarios. The first one concerned investing a large proportion of the lump sum in risky assets, while the second examined investing a bit less, depending on the customer's risk appetite. The suggestion was presented on a 20-page PDF file containing product-specific graphs and text.

When the family asked about pension considerations, the bank referred them to the “pension” person at the bank. For the sake of being brief, discussions regarding whether to buy a small apartment or if joining a co-share would be a feasible alternative did not yield any result.

The bank's investment advice was not bad, but it did not help the family understand the full situation and develop a comprehensive strategy regarding the insurance payout. After receiving the advice, they did not find themselves closer to the decision on the proportions of spending and investing per month. Neither did they have a clear picture about reaching their goal of providing their child with a secure income until the statutory retirement age. Nor did it help them compare the benefits of investing a portion of the lump sum into real estate or if this was feasible.

As a result, talking to the bank did not alleviate the family's anxiety but exacerbated it.

Using OutRank, the financial plan we found for the family could consider the big picture of their financial situation, moving away from the traditional siloes of the industry:

- To assess the expected net benefits as income for the next 60 years, including pensions and tax;
- To come up with a monthly spending plan on top of the benefit income;
- To encourage setting up an interest rate bearing cash account for emergency needs.
- To set up a tax-efficient investment savings account (in



“The final plan turned out to be conservative in terms of risk but well in line to make their child’s financial future sound.”

Sweden known as an ISK) for investing the lump sum, including tax and fees effects;

- To set up an annual top-up of the cash account that was created as a result of divesting a part of the risky investment;
- To manage uncertainty regarding the accommodation situation. To guide the family through the financial aspects of the decision on whether the child would live at home, co-share or buy a flat for herself.

Given the expertise and experience, one could perform these evaluations in an Excel spreadsheet. However, with OutRank, it is possible to offer much more than that:

- Offer your customers a holistic, 360-degree view of their financial situation
- Ensure accurate treatment of taxes and fees
- Alleviate the dependence on the technical skills of the individual advisor or planner
- Diminish the build-up of internal technical debt in terms of cumbersome spreadsheets
- Ensure auditability and compliance
- Offer an ability to reuse the simulation engine for building future use cases
- Help your business scale over time
- The possibility for an introduction to an interactive self-service solution for the customer to review, control and understand their finances.
- A possibility to monitor the financial position over time and perform automatic “health checks”.

Now, one can consider the future value of the investments using average return assumptions to create a financial plan that would ensure the funds would last long enough. However, this will not fully help answer the implied question, but rather the different question of “would my funds suffice on average.” The nature of this answer is such that very few people should consider acting upon it.

Using the OutRank economic scenario generator, we can consider thousands of different possible future outcomes, covering for example, the known or unknown financial stresses. This enables us to take the analysis further than only considering what could happen on average. That way, the family can find out the answers to follow-up questions such as “would our funds suffice even if the stock market is not performing as well as historically, or if there are potential economic stresses such as adverse climate scenarios etc.”

Conclusion

The problem of planning family funds is very similar to working out an early retirement pension plan for a mass affluent customer. It is an exercise of planning the income and outgoings in a way that the funds would last for the rest of your life, given your specific situation.

With the help of OutRank, the family has a plan that details an investment strategy and the recommended levels of spending. Since OutRank is a technology, the trust and understanding were built together with the advisor assisted by interactive visualisations of the what-if scenarios. Furthermore, the family can rest assured that their situation is regularly monitored and followed up annually. Thanks to technology, all this can be provided at a very reasonable cost.

The final plan turned out to be very conservative in terms of risk but well in line to make their child’s financial future sound. Creating this plan reduced stress and anxiety of the family while improving their child’s future quality of life.

The family was delighted to receive an actionable plan they understood, trusted and that considered the personal circumstances of their situation. Using OutRank as a self-service enabler or as a tool supporting a financial planner, your financial institution could help all people, not only the mass-affluent or HNWIs of this world.