What is Personal Financial Management?

In the past, consumers had to manually piece together—either on paper or using other software programs—the various details of their accounts to produce a complete picture of their financial portfolio.

Now an entire class of online tools and services for money tracking, budgeting, and advice known as Personal Financial Management, or PFM, exists to help consumers navigate and manage their financial lives. A PFM solution can aggregate accounts, receive bill reminders, establish goals, view and split transactions, visualize spending categories, provide savings tips, and visualize short-term cash flow.

Initially, these tools were offered by a handful of startups, the most famous being Mint.com. Increasingly, however, banks are getting in on the game. In fact, PFM is being called the future of online banking.

According to one recent survey, what consumers want most is a feature some banks, like Citi, already allow: the ability to pull information from all of their accounts into one place. Indeed, in a recent survey, 49 percent of respondents expressed desire to use such an account aggregation capability.¹

Win-Win: How PFM Satisfies Customers and Banks

In the past, customers tended to think of their bank as an educational resource that could help them learn about money and how to manage it. Today, with time constraints and technological advancements, people increasingly prefer not to visit their bank branches. As a result, personal contact with a teller is diminished, and banks are losing an important opportunity to engage with customers. However, the need for advice and guidance remains. In fact, in today's uncertain economic climate, customers need that connection and expertise more than ever.

Enter PFM. PFM offers a low-cost online channel that allows banks to engage with their customers in the way today's customers prefer. In addition, by helping customers keep apprised of their financial situation, and helping them to improve it, PFM allows banks to be an ally to their customers again.

These days every major financial institution is competing for the same customer base. A bank that invests in a strong, intuitive PFM platform for their customers stands to win their customers' loyalty. In fact, consumers consistently respond favorably to invitations to learn how to spend less, keep a budget, and make their money work harder for them. Consumers are also loyal to institutions that show an interest in helping them to improve their financial performance.

In fact, PFM customers are four times less likely to leave a bank than online banking only customers. Also, customers were more likely to say that PFM increased the value of their online banking experience (80 percent). And, more than 50 percent of PFM customers at a large European bank are still active one year after starting to use PFM.²
By integrating meaningful PFM tools into the online banking experience, banks can create a personal connection to their customers, build an active community, and enhance clients’ financial well-being. These actions in turn foster brand loyalty.

As an added bonus, PFM offers banks rich insight and a dynamic view into their customers’ financial goals and account relationships. PFM goes beyond engaging customers in financial activities such as paying bills, viewing balances, and self-service. It provides banks a gold mine of customer data on existing account relationships, goals, and needs—critical data for effective cross-sell strategies.

However, not all data aggregation solutions are equal. While many attributes distinguish the best from the rest, the following are key to separating a leading solution from the rest of the pack:

**Network Size**—The success of a data aggregation solution revolves around the size of its network. The number of users and accounts in the system is critically important to data quality, coverage, and cost to support. There are tens of thousands of data sources in the world, and hundreds of thousands of account types with a nearly unlimited number of transaction types, most of which are not supported by any sort of industry standard format. To successfully understand, store, interpret, and display that information, the aggregation system that has exposure to the greatest number of variables is going to be the most successful.

**Data Breadth and Variety**—The solution must be able to aggregate data from a broad variety and wide breadth of data sources. To provide a user-centric experience, all types of financial accounts need to be supported from as many data sources as possible.

**Data Model Depth**—Since all consumer data is compiled into a centralized and highly secure database, it is imperative that the set of fields in that database provides comprehensive coverage of all account and data types that may be encountered.

**Transaction Categorization and Merchant Name Services**—Key to data aggregation is identifying the merchant and category of transactions as they are aggregated. Merchant name identification should be performed on all bank and credit card accounts while categorization is performed on bank, card, investment, loan, and insurance transactions. The best data aggregation engines will ensure that categorization and merchant name identification processes are closely linked and that they leverage the network with crowdsourcing and external data sources. In addition, identification of merchants and categories should be done at runtime as new transactions are encountered.

**Enhanced data quality**—When collecting data from disparate sources, the quantity and quality of data varies. The differences must be analyzed and appropriate routines devised to produce a complete and consistent dataset.
Automatic data updates—A strong data aggregation solution has sophisticated scheduling rules that enable it to efficiently and automatically update aggregated data even when the consumer is offline. This ensures a high quality user experience every time the consumer logs in. The consumer is confident that personal data is up-to-date and immediately available.

Alerts—An additional benefit of data aggregation is the ability to quickly identify and act on changes in data. To facilitate exception-based monitoring capabilities, an Alert Engine compares global and consumer-specific rules every time data is collected and triggers alerts when the data meets predefined criteria. A wide variety of balance, statement, transaction, usage, and billing alerts can be supported to notify consumers when their data has changed and action is required.

Advanced data services—In addition to basic data collection, a wide variety of complementary services are possible that further enhance the value of aggregation solutions. Look for a solution that automatically logs in to consumers to a destination site (Auto-Login); automatically registers them for online access at a destination site (AutoReg); facilitates biller-direct card payment at a biller’s site (DirectPay); and signs them up for recurring card payments at a biller’s site.

Reporting—Data collected by the aggregation engine is not only useful to the consumer. It also provides the financial institution with detailed consumer information, including “share-of-wallet.” An institution is able to tell what percentage of a consumer’s assets are within its organization and what percentage is being held away. This knowledge supports the financial institution with cross-sell and up-sell opportunities, market penetration, and consumer usage trends.

Advanced monitoring and data operations—Due to the nature of aggregation technology, it is imperative that all data sources, data quality, and data operations are monitored 24/7. For example, if a data source becomes unavailable, specialized operations personnel must be on hand to correct the problem. A sophisticated proactive monitoring and debugging infrastructure that addresses data source and data quality issues quickly and without compromising the security and privacy of consumer data is essential.

Content in different languages—It is possible to aggregate content in different languages if the site is able to provide content in different languages. Based on the consumer’s preference and site support for that language, the aggregation engine can fetch the content in the consumer’s preferred language. It can also render system information like account type, help information, etc., in the consumer’s preferred language.

Flexible integration options—The ability to integrate aggregation-driven solutions into the overall service portfolio of a financial institution is of prime importance. This provides a seamless consumer experience and maximizes the value of the offering. Look for a flexible implementation model ranging from hosted Web solutions for each application to complete, custom applications built using a Web services Software Development Kit (SDK). Make sure the solution supports industry standard integration options such as SAML 1.0/1.1/2.0 for Single Sign On (SSO), as well as a standards-based model for alerts integration.

Scalability—True enterprise-class aggregation solutions must be designed to be highly scalable and perform while handling hundreds of thousands—if not millions—of consumers and accounts. Look for a platform that can support massive horizontal scalability, for example, one that leverages a J2EE architecture that is well known to achieve these requirements.
How Yodlee Can Help

Yodlee’s mission is to enable consumers to navigate and manage their financial lives.

With 13 years of experience, 50 issued patents, and more than 80 percent market share, Yodlee is doing just that. As the pioneer in data aggregation and PFM, Yodlee meets each of the key capabilities described above and sets the industry standard for data aggregation-enabled consumer solutions.

The Yodlee platform benefits greatly from the network effect of the scale and breadth of the company’s data engine. With more than 40 million registered users across 600 world-class banks, Yodlee is able to cleanse, normalize, and categorize more transactions more accurately than any other system.

Currently supporting data aggregation from over 10,000 data sources and constantly adding more as market and business requirements dictate, Yodlee has immense breadth and depth of data. In fact, given the breadth of site and account coverage the company has attained, Yodlee has connectivity to the most extensive library of global financial services data possible. From this perspective, Yodlee has refined and expanded its data model to provide a rich and compelling data set suitable for valuable financial services applications.

In addition, the Yodlee data engine applies sophisticated business rules to ensure the richest, highest quality data set possible. Sophisticated scheduling rules enable the Yodlee platform to efficiently and automatically update aggregated data even when the consumer is offline, while an alert engine compares global and consumer-specific rules each time data is collected and triggers alerts when the data meets predefined criteria. A wide variety of balance, statement, transaction, usage, and billing alerts are supported to notify consumers when their data has changed and action is required.

Conclusion

Personal Financial Management, or PFM, is a boon for banks and consumers alike. With a complete financial picture of their customers, banks can approach their customers sensitively, helping them gain control over their finances and providing targeted financial solutions and services that make sense for their current situation. PFM allows consumers to gain a complete and accurate picture of their financial situation, empowering them to plan for the future and make better choices. A strong PFM solution relies on a powerful data aggregation engine to work. Yodlee’s approach to data aggregation and PFM is unique in the industry, and the results are far superior to any other system on the market today.

About Yodlee

Yodlee is an American software company that develops an account aggregation service that allows users to see their credit card, bank, investment, email, travel reward accounts, and more on one screen. In addition, Yodlee MoneyCenter, a free web application that helps consumers manage their finances online, provides features such as bill payment, expense tracking, and investment management. Yodlee’s personal finance data platform is used by over 600 leading financial institutions and companies and more than 40 million consumers. Yodlee’s best-in-class solutions remove the friction from financial management, delivering a more insightful, interactive, and actionable experience for consumers while delivering revenue, retention, and engagement for financial providers. At Yodlee, we believe in a more informed consumer. Access to one’s complete financial story results in more informed financial decisions, driving a better overall economy and benefiting our clients and their customers alike.

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