

PRESS RELEASE

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ADAPT OR DIE – FINANCIAL SERVICES FACING A DIGITAL TSUNAMI

The financial planning industry, both globally and within Australia, is destined for extinction if it does not develop practical solutions to the impending digital tsunami, according to a White Paper released publicly today by the PHAROS/Madison Group.

The White Paper, entitled *Adapt or Die, The Impending Digital Tsunami*, argues that financial advice practices that do not embrace the growing digital developments in the financial services industry will become irrelevant and be left behind.

Madison Financial Group General Manager, Giulio Russo, said the impending digital disruption holds great possibilities for practices that are able to adapt, but it also holds a growing threat for those practices that are not.

“This is not a new phenomenon. It has been happening in other industries during the past three decades. The paper gives examples where strong and stable bricks and mortar industries, like photographic film producer Kodak, large franchise music stores and book chains have lost their physical competitive presence due to digital disruption from digital cameras, iTunes and Kindle and eBooks.

“The fact is - digital disruption is already taking place in the financial services space,” Mr Russo said. “If we don’t adapt to the needs of the growing number of people embracing and expecting to have access to digital solutions, our industry will be left behind.

“The developments of the past two decades show our industry is well down the digital path. Since 1987 the use of algorithmic stock trading engines has increased to the point where they are responsible for 75% of all trades in the US. ATMs have decimated teller numbers in both the US and Australia.

“In the future it is possible that cryptocurrencies, like Bitcoin, will pose a threat to payment processors (banks), tax collectors (government) and foreign exchange traders.”

Mr Russo said the White Paper makes the point that there is very little about the financial services industry that is not digitisable.

“The White Paper is clear that we are nearing a perfect storm where a number of cells are coming together and are about to hit concurrently. These cells are artificial intelligence and robotics, growing social media use, globalisation, connectivity and mobile, power and storage and big data,” he said.

“While this tsunami will be technology enabled, it will be consumer led. Consumer behavioural change is about to rock our traditional ‘delegated’ advice model and the way we do business to its core.”

Mr Russo said international research showed that consumers of financial service products were increasingly using digital research and execution services, but their interaction with a financial adviser through digital means or social media remained at a very low level.

“A number of global, forward-thinking firms are already developing specialised automated algorithm-based services that are meeting the specific needs of clients who come to them.

“These are the organisations that are adapting and meeting consumer needs and we need to learn the valuable lessons that they are offering us.

“It is a subject that is going to become more and more relevant and the White Paper aims to start a conversation about the solutions and how we, as an industry, take these challenges and adapt to meet them.”

This White Paper is the first in a series being developed this year to look at the future of the financial services industry and what the industry needs to do to remain relevant, while embracing compliance regimes.

The full White Paper is attached with this release.

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