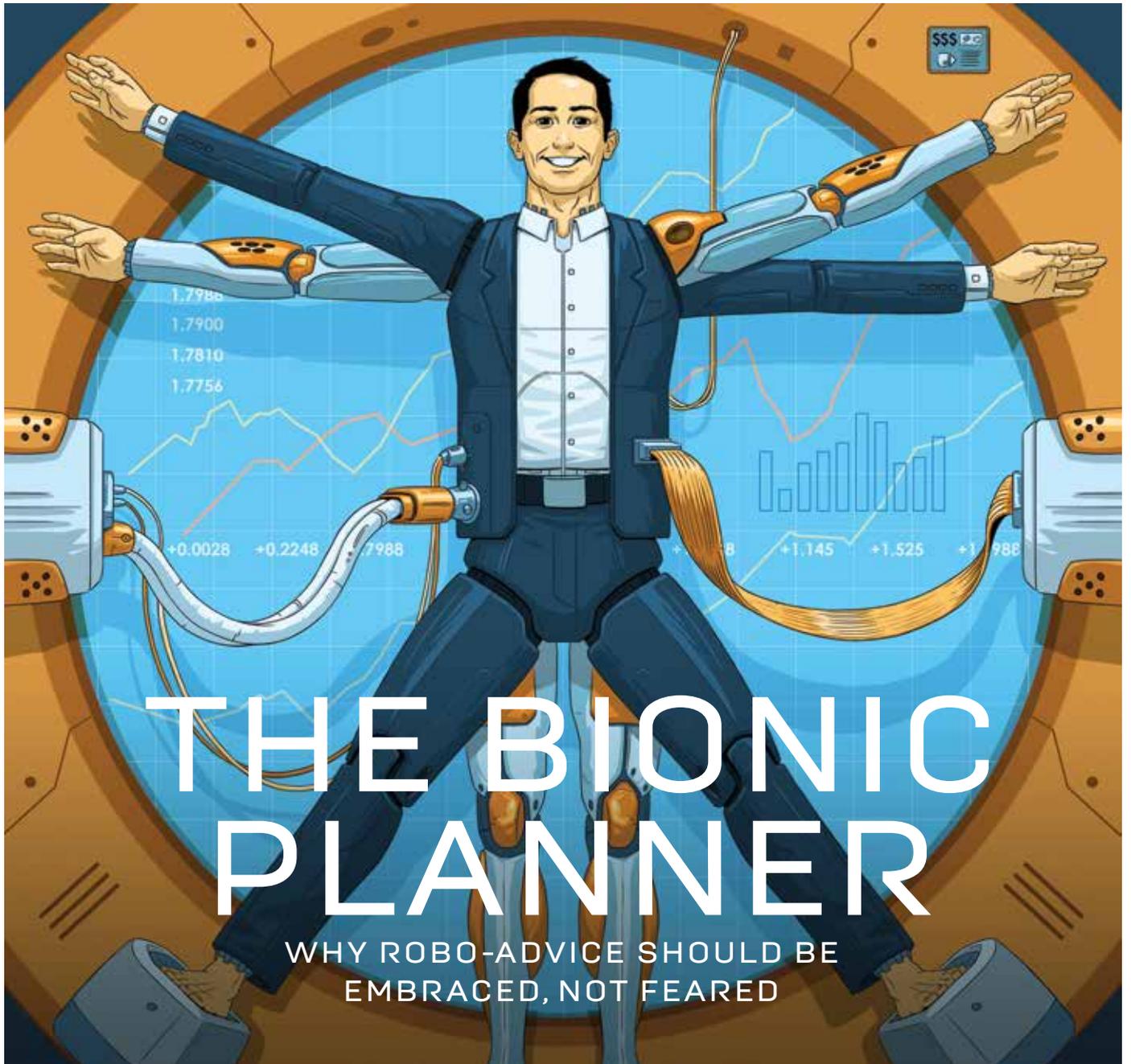


# Professional PLANNER

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# FEAR *of* ROBO- ADVICE *and* THE 'BIONIC' PLANNER

FEAR OF TECHNOLOGY IS NOTHING NEW, IT'S BEEN AROUND SINCE THE LUDDITES SMASHED SPINNING MACHINES IN ENGLAND. IN TERMS OF FINANCIAL ADVICE, IT IS MOST LIKELY THAT A COMBINATION OF FACE-TO-FACE AND ROBO-ADVICE WILL EMERGE.

any advisers are fearful that the explosion of robo-advice will make them redundant. With the likes of asset allocation automated, where does that leave them? It's part of a broader concern that robots are about to steal our jobs.

But the reality for financial advisers is more complex, and certainly much more optimistic.

According to Marianne Perkovic, the outgoing executive general manager of wealth management advice at the Commonwealth Bank, we're about to enter the era of the "bionic" adviser, where advisers harness the power of robo-technology to become more efficient and effective.

**WORDS**  
BEN POWER







The bionic adviser, of course, is a reference to the “bionic man” in the *Six Million Dollar Man*, a US science fiction show that first aired in the 1970s. The main character, former astronaut, colonel Steve Austin, suffered injuries after crash-landing an experimental plane, and was given bionic implants that gave him superhuman strength.

Robo-technology scares people, Perkovic says.

“Advisers think their roles are going to go. But in a bionic sense, they’re still going to be there from a customer engagement perspective.”

Advisers aren’t about to have bionic implants (though that too is being forecast by some futurists), but Perkovic is right: rather than a threat, robo-technology is actually about to lead to the flourishing of advisers who can use robo-technology to collect and service more and more customers.

Robo-technology will also liberate them from mundane tasks and allow them to build deeper and more valuable connections with clients.

“A lot of advisers are frightened about what all this technological change means for them,” says Ian Dunbar, the author of *Automated Investment Advisers*, the first global review of robo-advice providers on a global scale, which was released last year.

“But this is the most exciting time to be a financial adviser,” he says.

Like most technology revolutions, the robo-advice industry developed in the US. Dunbar, now also chief executive officer of SuiteBox, which provides mobile office solutions for planners and professionals, says the flagship robo-advice firms such as Wealthfront and Betterment pioneered the direct-to-consumer model. Their model is to gather information online about an investor, perform an online risk profile, then recommend an investment portfolio for the investment. The portfolio, usually of ETFs (exchange-traded funds), was then managed. It is a completely online digital experience. There is no adviser in sight.

#### A PROLIFERATION OF PROVIDERS

That direct-to-consumer model has been cloned in Australia. The first was Stockspot, which launched in 2013. Since then there has been a huge proliferation of providers in that segment, including Ignition Wealth, Clover and Indexia. The likes of NAB are also looking to roll out robo-advice services.

But according to Dunbar, many of these robo-advisers are struggling.

“It’s really crowded and it’s really hard for them to make money; it’s really hard for them to get scale,” Dunbar says.

“We’re even starting to see attrition in that market.”

Dunbar says the challenge for robo-advisers is not the technology, but acquiring customers.

He says it’s also unlikely that any of the direct-to-consumer robo players in the US are making money as well. Evidence suggests that robo-advice isn’t making great inroads into the important high net worth client market. According to a PwC report, *Sink or swim*, which examines the impact of digital on wealth management, just 6 per cent of HNW (high net worth) clients use robo services in the US. Satisfaction also seems low overall. Fewer than half of HNW robo users rate the experience highly.

The vaunted power of robo-advice is also becoming demystified. Julian Plummer, chief executive officer of planning software provider, Midwinter, says ‘robo-advice’ is a misnomer. “All it is is someone doing a risk profile questionnaire, and mapping risk profile to an appropriate portfolio. People are going to be bitterly disappointed if they think there’s some amazing algorithm that’s selecting these portfolios. It’s no different to what people have been doing for the last 20 years.”

Robo-advice is also receiving regulatory scrutiny, with regulator ASIC (Australian Securities and Investments Commission) undertaking a consultation process, which is exploring the regulation of digital financial advice, including issues such as the need to monitor and test algorithms.

#### ROBO-ADVICE TOOLS THAT WILL HELP ADVISERS

But with conventional robo-challenged, Dunbar says there is another, possibly more powerful trend emerging: technology players using robo-technology to provide tools that help advisers automate processes and become more efficient.

“There is this absolute wave of innovation and technology that is transforming the advice industry,” Dunbar adds. “The vast majority of advice is still going to come through a human with a relationship. But technology is increasingly enabling smart financial planners to not have to do a whole lot of work that’s manual. It will enable them to be so much more efficient, and have more customers, and spend more quality time with clients.”

Rice Warner, in a recent opinion article, *Does Robo advice compute?*, said personal robo-advice would fall into three categories: fully automated advice with no human interaction; hybrid services that start with fully automated advice with various levels of sophistication, supplemented with the option

of consulting a human adviser; and full-service traditional advisory services that leverage guided advice technology solutions. It says the final model “is the logical development of existing full-advice services, typically aimed at wealthier clients with more complex issues”.

The robo automation trend is being driven by players such as Ignition Wealth, Decimal, and incumbent planning software providers such as Midwinter, Provisio and IRESS.

But rather than eating advisers’ lunch, many robo players themselves want to work with planners, and to provide tools that make them more efficient.

“Everyone wants to be on the adviser’s desktop,” Dunbar says.

Macquarie’s OwnersAdvisory is one of the more high-profile robo style providers, though its product is radically different to the conventional robo online services. It has bought the power of institutional advice to the masses. Its technology scans 30,000 potential investments and produces a Statement of Advice that is granular to the extent it advises exactly how many BHP shares to buy.

OwnersAdvisory has a B2C version targeting retail clients. They pay \$45 per month to become members and receive newsletters and articles. If they want a Statement of Advice, it costs just \$55.

#### PERCEIVED THREAT MAY REALLY BE OPPORTUNITY

The power of the product and the low cost might pose an obvious threat to planners. But OwnersAdvisory is now targeting the adviser market and developing a B2B product. “We’re working with a very select group of financial planners to create a beta version,” says chief executive officer John O’Connell, who is an advocate of the hybrid model.

BigFuture, a cloud-based wealth advice service, is another robo player that wants to work with financial advisers.

“Fintechs love to work more closely with financial planners to try to work out what those planners need,” chief executive officer Donald Hellyer says.

There is certainly room to drive efficiencies through automation across the industry.

Anthony James, the asset and wealth management leader at PwC Australia, says that the business of financial advice is expensive. Advisers face two major areas of cost: acquiring and onboarding customers, which is very expensive and time consuming; and providing quality ongoing service to existing clients, which is also a labour intensive activity.

“Good advisers who understand the economics of their business will embrace technology and adapt their use to their business models to decrease those two costs, and ultimately service more customers, at higher quality with hopefully happier outcomes,” James says.

Dunbar agrees. “As an industry, it’s not very efficient,” he says.

He notes a recent report from Perpetual that found the average planner spent just 16 hours a week with clients.

“That’s not even 50 per cent of their time spent with clients,” he says.

“As an industry, there is a huge opportunity for technology to come in and drive efficiencies and scale and productivity,” says Dunbar.

#### MORE AFFORDABLE ADVICE FOR MORE PEOPLE

With just 20 per cent of Australians getting financial advice, there is also the potential for automation to deliver more affordable advice to the remaining 80 per cent.

“Quality low-cost robo-advice could be something of a panacea for the vast majority of investors/savers (perhaps 80 per cent of adult Australians) who have never consulted a financial planner or can’t afford do,” Rice Warner says.

But despite the power of technology to drive efficiencies, there is a consensus that humans will remain crucial in the advice process and need to work alongside technology to deliver the best client outcome.

“A lot of human beings want to talk to another human being,” O’Connell says. “As long as that exists, planners are going to continue to exist.”

So the new vision is not making advisers redundant, but to incorporate them into automated processes and to empower them with technology in the “hybrid” or bionic model.

The overarching vision of the bionic adviser is that all processes, such as information collection,

THE AVERAGE PLANNER SERVICES 115 CLIENTS. IN THE US WHERE VANGUARD LAUNCHED ITS PERSONAL ADVISOR SERVICES PLATFORM ... USING ROBO-TECHNOLOGY, THE AVERAGE VANGUARD PLANNER HAS INCREASED THE NUMBER OF CLIENTS THEY SERVICE FROM 120 TO 600.

WHEN IT COMES TO ROBO-ADVICE

AND THE POTENTIAL OF THE BIONIC ADVISER

SHE HAS A SIMPLE MESSAGE:

“EMBRACE IT. DON’T BE AFRAID OF IT.”



Statement of Advice production, investment strategy and execution, will all be automated.

That will allow two things: planners can offer cheaper advice to more clients; but also it will liberate planners from mundane manual tasks, such as collecting client information, which will allow them to focus on higher-level strategic advice.

O’Connell says that using robo-technology will allow advisers to significantly expand their client base. A Macquarie study found the average planner services 115 clients. But O’Connell points to the US where Vanguard launched its Personal Advisor Services platform where by using robo-technology, the average Vanguard planner has increased the number of clients they service from 120 to 600.

Vanguard’s hybrid service provides a concrete example of the bionic future. It has already proven successful and reportedly brought in more than \$US12 billion of assets – far outstripping pure robo rivals like Betterment. (There are no plans to launch the Vanguard service in Australia).

The service uses software to create asset allocation, but clients have virtual meetings with an adviser, who reviews the portfolio and incorporates things like life goals. The adviser can also provide advice during market volatility.

“To us it’s not really robo-advice because a human adviser is involved which makes it a bit different type of service to what you’d call traditional robo,” says Robin Bowerman, head of market strategy and communications at Vanguard Investments Australia.

Bowerman says technology will particularly allow advisers to service clients with lower account balances. Younger people, for example, may not have large account balances now, but an adviser can service them cost-effectively using technology, and form a relationship that will pay off as their account balances grow over subsequent decades.

#### MORE TIME, BETTER RELATIONSHIPS

With manual processes automated, planners will also be able to focus on spending more time creating deeper relationships with clients, and focusing on higher value-added services, including SMSF, transition to retirement and aged care advice.

“Every adviser wants to do that,” Midwinter’s Plummer says. “They don’t want to do investment option switching. They want to ensure clients are better off.”

Ross Bowden, the chief executive of Link Advice, says robo also presents a referral opportunity for planners. Clients will go online seeking help, and if they need more complex advice be triaged into face-to-face planning. He says the role of a planner may change over time to a more strategic role, with people coming to an adviser armed with digital output.

“This is occurring with doctors now, with patients seeking information from the internet,” he says. “But while some patients are more informed, many are confused and need detailed advice and guidance from a professional.”

Strategic advice is also less likely to be automated, which will also help protect planners from the worst of automation. Plummer says the recent changes to superannuation in the federal budget are a prime example of where high net worth clients would have needed to see their adviser. It would be a struggle to automate advice around such complex changes, he says.

“In the short to medium term, it is not likely that robo-advice will reach the point of being able to completely satisfy the needs of clients with particularly complex issues unaided,” Rice Warner says. “Such clients may have family trusts, small to medium businesses, complicated tax affairs and estate planning concerns. The tools are generally capable of dealing with these issues, but they need to be guided by someone with experience, especially when there could be complex interactions between the advice topics.”

Despite the opportunities, the challenge facing advisers is how to adopt and integrate the new robo-technologies. With a myriad of options, how do they prepare themselves to become bionic advisers?

“If you go back a few years, the big decision for

any dealer group and any planner is which desktop planning do they use,” Dunbar says. “Now there are literally hundreds of options of different types of technology.”

“The hard thing is how do you put it together,” Dunbar adds, noting that an adviser might like five bits of technology, but “you’ve suddenly got an integration project they have to work out. Advisers are not equipped to put together technology integration projects.”

#### TECHNOLOGY IS CHEAP, BUT SOME DEALERS ‘ASLEEP’

BigFuture’s Hellyer says robo-technology is now relatively cheap to install and run. He says the biggest barrier to robo is psychological.

“Most people think implementation of technology is going to be very disruptive to the organisation,” he says.

“These days implementation is very easy. It’s not like putting in a big new accounting system.”

He encourages planners to check out robo-technology and to engage with developers.

Dunbar says advisers can’t hope to become robo-ready by themselves, and they need to be applying pressure to dealer groups to ensure they’re on top of the robo revolution.

“In my experience the vast majority of financial planners running their own business just don’t have the time, or necessarily the expertise, to work out what the right answer is for the business,” he says.

“If I’m a planner I would be looking to, and putting pressure on, my licensee – my dealer group – to be showing me the thought leadership around what a financial advice practice of the future looks like.”

“Some dealer groups are starting to do that; others are asleep,” Dunbar adds. “But it’s absolutely what the advice industry needs.”

PwC’s James agrees with Dunbar that advisers need to apply pressure to licensees. “They need to be talking to licensees and demanding progress on digital advice models and support, embedding robo-advice and other digital innovations into their daily advice practices.”

Many are acting. Perkovic says the Commonwealth has been working and thinking through to robo issue closely, which has led to their ‘bionic model’.

The Commonwealth realised the major opportunity was to make the advice process more efficient. But Perkovic says there is a generation of people who are very comfortable with people.

“They want an advice relationship supplemented with digital opportunities,” she says.

They are partnering with IRESS and using XPlan to build better tools for advisers. Technology

will also streamline data gathering and Hoover up information electronically from the bank’s systems and feed it into advice documentation. The Commonwealth is also working with Colonial First State to perform straight-through-processing. When advice is delivered, the changes can be automatically executed by Colonial.

#### ROBO BRIDGES THE GAP

Infocus Wealth Management has also announced its entry into the robo-advice market with earnie.com.au, a free online financial, education and support tool, which integrates Morningstar and Praemium data and technology. Managing director, Rod Bristow, says the site aims to bridge the gap with the 80 per cent of Australians who don’t get financial advice. He says robo-advice isn’t about replacing financial advisers.

Infocus is using robo-advice as a lead generation tool as well. It will create an initial relationship with users online, but offer access to advisers. Earnie users can manage their own investments, but also seek advice from one of Infocus’s financial advisers, initially through live chat. Planners can use earnie to explain the concepts of financial advice to clients. “This gives users of earnie.com.au flexibility about how they want to engage with financial advice, and also means Infocus group advisers will benefit from engagement with more educated customers.”

Super funds are also looking to incorporate robo-technology into advice, but Link Advice’s Bowden says that while there is a lot of discussion amongst funds in relation to their strategy for digital advice, many funds are adopting a “wait and see” approach.

To take the opportunities that the bionic adviser offers, planners need to act now.

“People who underestimate the future sophistication of robo-advice do so at their peril,” James says. “It’s unfathomable that digital innovation won’t increase incredibly in sophistication in the next few years.”

But he is confident advisers will adapt and embrace technology. “Financial advisers are very good at adapting their business models,” he says. “We saw that with the response to FoFA (Future of Financial Advice) reforms. There is no doubt we will see that response to the emergence of new technology.”

“If I were an adviser building out for the future, I would want to incorporate robo,” Perkovic says.

“People need to get comfortable with consumers today wanting to get advice delivered in different ways. Advisers should enable their business to deliver that.”

When it comes to robo-advice and the potential of the bionic adviser, she has a simple message: “Embrace it. Don’t be afraid of it.” ■