Robo-Advisors
Client portals and the $30 trillion opportunity
The rise of robo-advice is shaking up the wealth management sector. The prospect of low-cost, automated, on-demand capabilities are transforming service models and client expectations. But robo-platforms are just a part of the broader technology trends that are sweeping through the industry.

The robo push

Is robo-advice—the low-cost, algorithmic-based alternative to traditional wealth management—at that iPhone moment?

Within the wealth management industry, opinions vary on just how much of an impact robo-advice will have on the services clients want and how they are delivered. Are robo-platforms a flash in the pan, or at the dawn of market dominance?

Steve Ballmer’s unfortunate (or misguided) prediction is a lesson in the perils of underestimating your competition, especially when it provides customers with smart, fun, and useful technology solutions. Windows Phone is now a distant third in the smartphone operating system market and Microsoft has dropped out of the top 10 phone manufacturers. And while Microsoft’s market capitalization did rise from $278 billion at the end of Q1 2007 to $377 billion eight years later, Apple’s rocketed from $77 billion to $747 billion over the same period.

Robo-advice may not turn out to be a great disrupter on the scale of Apple. Nevertheless, industry dynamics are in its favor. More importantly, the robo push represents part of a broader, powerful technology trend that is set to reshape the wealth management space.

So if you want to avoid a Steve Ballmer-type miscalculation read on.

Is robo-advice really a threat?

Just how much will robo-technology affect advisors’ businesses? At the moment, attitudes within the industry appear to be divided. A recent Pershing study reported that 27% of the advisors surveyed think digital advice is irrelevant to their business, whereas 23% view it as competition. One of the most surprising results, according to Pershing, was that only 19% of advisors believe robo-advice can complement their current practice.

A separate study by InvestmentNews Research in partnership with BlackRock paints a similar picture. Of the more than 400 advisors questioned, 43% said robo-advice will have no impact on their business. Meanwhile, 39% see robo-technology platforms as an opportunity (primarily as a marketing tool to attract clients), compared to the 18% that view them as a threat.

The majority feeling (cited by almost two-thirds of respondents) is that “robo-advice cannot match the value of a human advisor,” with more than half believing they can demonstrate their superior value by providing more customized support to meet clients’ needs. Just under half of the advisors see robo-technology as an enabler that can support their activities, but not replace them.

“There’s no chance that the iPhone is going to get any significant market share.”
—Steve Ballmer, Microsoft CEO, quoted in USA Today, April 30, 2007.
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As for why the surveyed advisors would offer robo-advice services, the primary reason (74%) is to attract a new client segment, such as younger investors with fewer assets. It was followed by a desire to remain competitive in the wealth management market (60%), not least given the plethora of robo-advisors and online investment platforms that are now entering the space.

More rapid adoption of disruptive technology—such as mobile apps and artificial intelligence for client communication—is likely to be a major factor driving growth. The study also points to the various distinct advantages robo-advisors have in attracting clients, including “low fees, attractive self-assessment tools, rapid enrollment processes and the widespread availability of portfolio rebalancing.” Low or no account minimums are another big attraction.

Rise of the robo
Complacency about robo-advice—both the competitive threat it poses, and the potential business opportunities it offers—is a risky strategy.

Deloitte points to the rapid growth enjoyed by the 11 leading robo-advisor firms, which saw their assets under management total $19 billion by the end of 2014, a 65% rise in just eight months¹. A 2014 MyPrivateBanking study further predicts that total global assets held by robo-advisors will reach $255 billion within five years. That is still only a tiny sliver of the total wealth management market. Nevertheless, the study predicts the sector will grow rapidly and cause severe disruption to traditional wealth managers’ business models.

Moving on up
Robo-advisors’ ambitions should serve as a further warning. There is a widespread perception that the low-cost, automated portfolio allocation tools typically offered by robo-platforms will only suit clients with relatively simple investment needs (particularly the young, burgeoning affluent). However, providers are starting to move up the value chain.

An InvestmentNews article noted robo-advisor firms are investing heavily in more sophisticated capabilities that will enable them to introduce automation into complex tasks that traditionally required a human touch—areas such as retirement planning, trusts, and estate planning. And with more and larger players (including Charles Schwab, Vanguard, and Fidelity) moving into the robo-space, and venture capital money flooding in, the pace and reach of those service developments is only set to increase.

¹ The Third Annual Study of Advisor Success: Confidence and Concern in the New Digital Age, Pershing, June 3, 2015
² The Study of Elite RIAs, InvestmentNews Research/BlackRock, May 28, 2015
³ Figures based on a Corporate Insight survey, quoted in Robo-Advisors: Capitalizing on a growing opportunity, Deloitte
⁴ Robo-Advisors: Threats and Opportunities for the Global Wealth Management Industry, MyPrivateBanking Research, Sep 15, 2014
Generational change
Perhaps the main industry driver though, and the biggest incentive for firms to get on the robo bandwagon, is demographics. Robo-advice is especially appealing to younger, tech-savvy, more financial services-wary investors. The new wave of digital offerings represents financial empowerment, allowing users to take control of their finances with automated, responsive, on-the-go tools. For traditional wealth managers, that is a timebomb.

A recent InvestmentNews article notes that over the next 30 years there will be a $30 trillion wealth transfer from baby boomers to Generation X to millennials. The bad news for wealth managers is that once they inherit the wealth, two-thirds of children leave their parents’ current financial advisor.

The biggest reason advisors lose those assets after they are inherited is simple: they lack a relationship with their clients’ adult children, who are often ignored or absent during any client dealings.

For example, InvestmentNews data shows that over half of advisors meet with their clients’ children less than once a year. The next largest group (18%) do not meet with the offspring at all. Meanwhile, a Corporate Insight survey in February found only a fifth of advisors are targeting their clients’ younger family members.

In some instances, the time and effort involved may not be deemed worthwhile, such as when an inheritance becomes highly diluted once it is split among multiple parties. But for those advisors keen to retain their clients’ assets for the long haul, the answer is obvious: if they are to develop trusted relationships with their clients’ children, it is vital they focus on ways to connect with the next generation much earlier—certainly before the parent dies, and preferably from the early phases of the initial association.

Figure 1: Five reasons robo-advice will disrupt the market
The Deloitte report highlights five reasons why robo-advice will be at the heart of disruption to the wealth management industry:

<table>
<thead>
<tr>
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<th>Reason for disruption</th>
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<tbody>
<tr>
<td>1</td>
<td>Significantly lower (and in some cases zero) fees, opening up huge opportunities in the largely untapped mass consumer market.</td>
</tr>
<tr>
<td>2</td>
<td>Robo-advice satisfies the new wealth generation’s user preferences (i.e. more control, digitally savvy, anywhere/anytime, etc.).</td>
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<tr>
<td>3</td>
<td>Investments in big data and advanced analytics are likely to broaden the types of advice that can be developed through algorithms and delivered digitally, making the offerings more personalized and specific over time.</td>
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<tr>
<td>4</td>
<td>Leading wealth management firms are adding robo-advice capabilities to existing human-based offerings to create hybrid models that help increase value for clients.</td>
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<tr>
<td>5</td>
<td>Technology has lowered barriers to entry for both financial and non-financial services firms to break into wealth management, resulting in greater competition and innovation.</td>
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There is a widespread perception that the low-cost, automated portfolio allocation tools typically offered by robo-platforms will only suit clients with relatively simple investment needs.
Future models

Although investment advisors will need to find ways to satisfy these next gens if they want to sustain their business going forward, they still have their older and more traditional clients to think about. That raises the prospect of having to develop and support multiple service models that appeal to different client types.

In this environment, hybrid offerings—that span a mix of robo and human advisory capabilities—will become increasingly prevalent.

The creation of more diversified offerings, either developed in-house or through partnerships between traditional advisors and their robo counterparts, is already gaining ground. For example, the Pershing survey found only 5% of advisors currently use digital advice in some form with their clients, but over half would consider leveraging a digital platform to target clients below their existing asset minimums.

Meanwhile, the InvestmentNews/BlackRock research reported that 8% of what it terms “elite” advisory firms offer robo-advice at present, with another 20% expecting to add it in the next two years. Much of the incentive lies in attracting new and younger clients, but it is also to “help build deeper relationships with existing clients and supplement their unique investment offerings.” For many traditional wealth managers, such models are seen as a particularly powerful threat to their more limited service propositions.

Of course, the more personalized, flexible, and complex capabilities that a human advisor is able to provide will remain an important, value-added component in the service mix. This is especially true at the ultra-high net worth end of the scale, where some advisors may feel best equipped to focus.

However, for those firms willing to embrace the capabilities on offer, there is considerable and growing scope for robo-technology to automate an array of lower value activities. In this way, firms can provide responsive, self-directed functionality to those clients who want it, streamline their operational costs, speed up administrative tasks and improve scalability. And by reducing the hours currently absorbed in onboarding customers and account set-up, preparing pitch/review meetings, handling routine queries, meeting compliance requirements and the like, advisors will be free to devote more time to gathering and investing assets, and interacting with and servicing clients.

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Automation, an expanding suite of self-service capabilities, enhanced advisor/client interactions, and improved communications, delivered through multiple—and especially mobile—channels: this is the big story. Those are the tools today’s investors really want, and increasingly demand.

In today’s 24/7 mobile, social, and cloud computing world, advisors can no longer expect their clients to be happy with a quarterly cycle of paper reports and static information. This was underscored by a 2014 Cap Gemini study, which found that 64% of affluent individuals expect their future wealth management relationship to be digital. Furthermore, 65% of affluent individuals say they will leave their wealth management firm if they don’t receive a cumulative channel experience, encompassing in-person meetings, phone calls, video conferencing, and rich client portal communications they can access on their home and mobile devices.

Beyond robo-advice
With digital advice garnering so many headlines at present, advisors can be forgiven for thinking the only way to remain competitive is to add a robo-offering to their own service mix. But robo-platforms are only one manifestation of the broader technology trend that is sweeping through the wealth management sector.

As the Pershing report notes: “Infusing technology into your business with greater self-service tools and more automation not only adds to profitability, but creates a more modern feeling for client communications and interactions that today’s tech savvy investors crave.”

Table: Five reasons robo-advice will disrupt the market

<table>
<thead>
<tr>
<th>Mobile friendly</th>
<th>Information access at the time and on the device of their choice.</th>
<th>Ability to generate personalized reports on the fly to enhance the client experience.</th>
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<tr>
<td>Dynamic reporting</td>
<td>Real-time view of holdings.</td>
<td>Saves time and costs of producing, printing and mailing quarterly paper reports.</td>
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<tr>
<td>Account aggregation</td>
<td>Ability to view all their holdings across accounts for complete net worth reporting.</td>
<td>Better placed to take a holistic approach to managing client portfolios e.g. make investment recommendations across taxable and tax-deferred accounts. Conversations become more forward-looking and strategic. Revenue opportunities by identifying assets for consolidation.</td>
</tr>
<tr>
<td>Notifications</td>
<td>Stay up-to-date and able to act on important portfolio-related information.</td>
<td>Enhance service value by proactively notifying clients of events that affect their financial health.</td>
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<tr>
<td>Self service</td>
<td>Take control of financial health and future planning.</td>
<td>Reduce costs and enhance operating efficiencies. Free advisors’ time to spend on nurturing client relationships and attracting new business.</td>
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Portal to success
With clients accustomed to having instant access to information about almost everything else in their lives, why should knowledge about how their investments are performing be any different?

To meet this demand, and improve engagement with their clients, advisors need an integrated infrastructure—one that seamlessly connects the firm’s portfolio management and performance reporting systems with an intuitive client portal that provides users with 360°, anytime, anywhere access to their portfolio data and account information.

An efficient and functionally-rich online portal brings clients and advisors closer together. Clients remain more informed and engaged, and more satisfied with their service experience. Meanwhile, by giving client-facing teams ready access to the portfolio and customer information they need, and arming them with tools to improve and personalize the services they offer, advisors can more effectively manage and grow their client and prospect relationships.
The robo-advisory model is shaking up perceptions about how wealth management services are provided, and who can take advantage of them.

Conclusion
Robo-advice is a small but fast-growing innovation that has profound implications for the future of the wealth management industry. The robo-advisory model is shaking up perceptions about how wealth management services are provided, and who can take advantage of them. As such, it presents both a huge opportunity and competitive threat to today’s investment advisors.

Whether robo-advice really takes off and captures a significant market share remains to be seen. What is not in question are the broader market trends that the emerging robo-platforms embody and seek to satisfy: investors’ desire for more accessible and usable information when and how they want it, more control, and a more responsive and interactive relationship with their advisor.

This is a critical moment for today’s investment advisors. By taking advantage of the new breed of integrated client portal capabilities available, firms have an opportunity to enhance client engagement, collaboration and satisfaction, foster new and existing relationships, while improving operational efficiencies, scalability and, ultimately, profitability. The alternative is an increasingly marginalized, niche future, and eventual obsolescence.