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The Advisor's Robo: Providing well-rounded financial advice and servicing through automated technologies



EXECUTIVE SUMMARY

While robo-advice may account for only a fraction of the total assets under management today, it is a technology that is here to stay—but not in the way that has dominated news stories over the past year or so.

Just as retail banking's efforts to move from “all branch” to “all digital” have evolved to focus on the right mix of physical and digital interaction, leading wealth management players need to focus on getting to the right combination of human advisors and automated investment advisory solutions in a hybrid model that seamlessly integrates the two. These hybrid models must allow a flexible mix of personal advisors and digital touchpoints that can be customized to the preferences of individual clients.

Rather than supplanting the financial advisor with technology, firms need to leverage new multi-channel automation to empower their advisors to focus on value-added, relationship-building activities. Ideally, commoditized functions can be delivered using digital tools enhanced with machine learning, and clients can be given the option to use online intelligence technologies to solicit advice on-demand via their preferred access points.

Entrusting one's entire financial well-being to an algorithm alone is a risk that many investors are not ready to take. The real power of automated robo-technologies lies in their ability to enhance the services of human advisors. These technologies offer the potential to help advisors with a number of longstanding challenges, including the following:

- Ensuring the entire financial picture of an investor and his or her household are addressed— delivering retirement savings, risk protection, and beyond
- Cost-effectively providing meaningful advice to lower-income demographics— as a whole, the mass affluent have substantial buying power
- Providing personalized service in the client's preferred format— from very hands-on, personal interaction to online self-service

Most advisors and firms are still drafting their hybrid advisor-robo experiences. Once successfully executed, these experiences will fundamentally evolve the relationship between advisors and their clients.



PART ONE: A COMPLETE FINANCIAL PICTURE, INCLUDING INSURANCE PROTECTION

The market offers an overwhelming number of personal financial products, from managed accounts, to annuities, to life and property insurance. It historically has been challenging for advisors to combine all of these into a unified solution for investors, rather than a collection of disparate “cross-sold” products.

While a financial plan is nothing new to the market, robo-intelligence substantially decreases the time and effort required by the advisor to develop one, allowing him or her to go from planning to multi-product implementation in the same meeting.

Compounding this challenge is the increasing difficulty of getting investors to buy life insurance in general. Advisors and firms both struggle to contextualize these products as a key piece of an overall financial solution for an investor.

A number of robo-tools are starting to emerge to help advisors address these issues. By analyzing information gathered on an investor's financial statistics, goals, worries, and other factors, the best of these systems will produce detailed,

multi-product recommendations. These plans are not just high level, but extend even to specific products for implementation—for example, producing a short list of specific suggested life insurance policies, with side-by-side price and feature comparisons.

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A subset of this type of multi-product, robo-advice is also emerging for employee benefits advisors and consultants. Voluntary benefits in particular, such as critical illness and hospital confinement, present an undeniable growth opportunity for advisors and firms. However, many clients do not want to take the time to wade through confusing product details to make a purchase. Using robo-tools, advisors can cost-effectively provide personalized voluntary benefits recommendations based on a client's specific needs.



PART TWO: PERSONALIZED INVESTMENT ADVICE FOR RETIREMENT, EDUCATION SAVINGS, AND OTHER SMALLER BALANCE ACCOUNTS

For many investors, corporate defined contribution plans and tax-deferred individual retirement investment accounts represent the large majority, if not all, of their non-real estate net worth. Personal retirement accounts are a well-understood target for robo-advice tools. The current wave of innovation lies in adapting these concepts to resolve a longstanding defined contribution plan market challenge—providing low-cost, but added-value, investment advice services to plan participants.

A number of leading market-focused retirement firms are adding to the concept of a risk score matched to an asset allocation by providing deeper lifecycle needs analysis to supply additional value to plan participants. Firms can charge an additional fee for this advice, but the issue remains offering the service cost effectively, at scale. A robo-advisor type platform holds great potential for executing on affordable, mass-customized advice.

These algorithms require more flexibility than standard robo-advisors. They must be able to support whatever mutual fund or other products are available through the plan, rather than a narrowly predefined, mandatory product shelf. Investing in this strategy brings the added benefits of deepening the relationship between the firm, advisor, and plan participant, while increasing the likelihood of retaining that participant if he or she rolls out of the plan upon a job change or retirement.

Robo-advice tools also increase the ability of advisors to provide personalized investment guidance to non-core accounts, such as education savings plans and U.S. Health Savings Accounts (HSAs). The HSA in particular can become a powerful retirement savings vehicle, in addition to being a health insurance back-stop, when guided by tailored long-term contribution and spending projections along with a risk-adjusted asset allocation.

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PART THREE:

MODELS OF ENGAGEMENT – FROM CLOSE PERSONAL INTERACTION TO INVESTOR SELF-SERVICE, AND POINTS IN BETWEEN

One of the trickiest issues firms and advisors both face when implementing robo-advice tools is defining the investor experience. It is well-understood that different investors want to be served in different ways. On one extreme is the investor who wants to talk through everything with the advisor in person, never accessing any sort of online account management portal. On the other extreme is an investor who wants to do everything independently on a mobile device, and maybe only message a question or two to the advisor (which the investor expects to be answer promptly and in the same format).

Robo-advice tools present the opportunity for firms and advisors to support more of the scenarios on the spectrum between these two extremes. The firm is responsible for defining which scenarios it really wants to support, given its value proposition, and implementing its investor experience accordingly.

Popular principles stemming from the flexible engagement model enabled by robo-tools include:

- Financial or investment planning can be done by the advisor in multiple ways: while sitting with the investor (e.g., on a tablet), while remote (e.g., on a phone call with screen sharing), or largely investor self-directed (with advisor involved only as need to address specific questions investor has during process). All approaches may even be used with a single investor—for example the investor may complete basic profiling steps in a self-directed manner, then meet with the advisor or have a call to discuss the results and plan for specific portfolio solutions and insurance and banking products.
- The advisor can be freed of administrative functions (e.g., brokerage account opening, an address change, etc.) in favor of more value-added activities, through either investor self-directed functionality or call center support.
- Investor servicing may be truly 24/7, with the investor able to complete certain functions on his or her own in a portal, or able to contact a central call center when the advisor is not available.



PART FOUR:

CONSIDERATIONS FOR IMPLEMENTING A HYBRID ADVICE MODEL

In moving to a hybrid advice model, there are a number of challenges that must be addressed including the following:

- **Value propositions:** At the core of a hybrid offering is the critical step of clearly defining and communicating the value proposition to clients, which requires making difficult choices regarding client segmentation, pricing, etc. But the client value proposition is only half of the equation—just as important is defining a clear and compelling value proposition for advisors. This similarly requires difficult choices regarding advisor segmentation, compensation models, and ultimately the business case for advisors. A critical consideration is that the primary role of the digital platform should be to improve on-demand interaction, not to save money for the financial institution. But given that the press often promotes robo-advisor innovations as ways for big firms to cheaply serve small clients, some clients and advisors likely assume some or all digital tools are inferior and intended primarily or exclusively about lowering costs. Client and advisor input are essential to developing and refining the value propositions. To this end, pilots and tests can be major accelerants, allowing firms to experiment and learn from advisors and clients before broadly deploying solutions.
- **Regulatory and legal risk:** Regulators are still catching up (though the SEC's recent guidance [<https://www.sec.gov/investment/im-guidance-2017-02.pdf>] provides a notable waypoint), so firms need to carefully watch the legal and regulatory landscape as it evolves and play a role in influencing smart regulation that will enable providers to empower their clients to achieve their goals. In addition, cybersecurity must be addressed—more so than ever given the sensitivity of the personal data required to drive automated, customized advice.

Another critical criterion is finding a true fit with the firm's established value proposition and business infrastructure. Certain robo-solutions do not allow the firm to customize asset allocation and investment methodologies, product shelf, and other factors key to the financial institution's own approach.



- **Advisor and client engagement:** At its core, the success or failure of a hybrid strategy rests in gaining the buy-in and active engagement of both advisors and clients. Firms need clearly defined strategies to address the various segments of advisors and the various segments of clients—one-size-fits-all and top-down decrees are recipes for disaster. Simple, clear, and transparent communication is essential for advisors and clients. Firms should test, listen, learn, and repeat.
- **Tool selection:** Firms should be cautious when selecting robo-tools, as certain tools were developed for the direct to consumer or registered investment advisory models rather than for a truly hybrid environment in support of advisors. These tools have fundamental architecture gaps preventing them from being appropriate for use by an institution, such as:
 - Multi-role profiles / entitlements – lacking detailed entitlements to restrict certain users to certain types of functions (e.g., compliance, portfolio manager, etc.)
 - Enterprise supervision and compliance – lacking detailed audit logs of user activity, robust compliance dashboard, reporting, or other requirements
 - Mass-customization – lacking the tools or bench to customize the look and feel, along with the user experience, of tools not only for the institution, but also for specific advisors

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Achieving a complementary fit with the firm’s established operations and technology ecosystem is another common issue. Many robo-tools are locked into a specific custodian or limited group of custodians, which can cause a disjointed client experience, in particular for those with multiple accounts at the firm. This can also act as a roadblock if a client needs to be transitioned to a different account, for example if he or she is upgrading from a basic fund wrap to a separately managed account. Integration with performance reporting and billing (i.e., for householding), customer relationship management, and other established technologies is also important.



CONCLUSION

Robo-advisor technologies cannot replicate or replace the relationship a human advisor can develop with an investor. However, these tools present a clear opportunity for firms and advisors to dramatically improve the advice and servicing they provide. Meaningful asset gathering will be driven by firms clearly defining the products and engagement models they want to support, and choosing supporting tools that also integrate with the firm's established environment.



About CGI

Founded in 1976, CGI is one of the largest IT and business process services providers in the world. Operating in hundreds of locations across the globe, CGI helps clients become customer-centric digital organizations. We deliver high-quality business and IT consulting, systems integration and transformational outsourcing services, complemented by more than 150 IP-based solutions, to support clients in transforming into digital enterprises end to end. CGI works with clients around the world through a unique client proximity and best-fit global delivery model to accelerate their digital transformation, ensure on-time, within budget delivery, and drive competitive advantage in today's increasingly digital world.

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About Patpatia & Associates

Patpatia & Associates is a management consultancy that serves exclusively global financial institutions and financial technology firms. We provide both strategy development and execution services for clients, ranging from the largest multi-nationals to boutiques. Our Wealth Management practice has multi-faceted specialization, encompassing areas, including: new market entry strategies, advisory and customer engagement initiatives, product/platform development, and technology and infrastructure modernization. Through these specializations, our team of industry veterans helps firms with diverse market challenges, such as compliance with new regulations and development of digital wealth and robo advisory solutions.

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