

Robo-Advice

What it means for the sector, the market and its customers.

space

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Foreword

Marilyn Cole
Managing Partner
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Money Talks is the quarterly finance forum hosted by leading FS marketing agency, Space. It's where we invite key industry players and commentators to join us around a table and discuss a topical issue in the marketplace that affects advisers, providers and customers.

In February 2016, the Money Talks forum invited a panel of experts to discuss the highly contentious topic of Robo-Advice. The debate covered a lot of ground.

How do we define Robo-Advice? How can we encourage customers to use it? Is it a threat to traditional advisers? How will regulation affect it? Does it work? And who will be the real winners – our customers or the industry?

Please note that shortly after our round-table session, the Financial Advice Market Review final report was published. It specifically addressed the issue of automated advice and promised further work on the definitions of advice and guidance. We therefore contacted the panel again to gather their views and have added them into this report.

The FAMR review clearly adds an extra dimension to the debate and I very much hope you'll enjoy reading this report.

You can also watch video clips from the session at www.space01.co.uk/moneytalksvideos. In the meantime, if you'd like to take part in one of Space's Money Talks sessions, or suggest a topic for debate, contact: marilyn.cole@space01.co.uk

Panel of experts



Adam Byford
MD of Synaptic Software



Billy Burrows
Independent Retirement Consultant



Chris Daems
Director of AE in a box and Cervello Financial Planning



Keith Churchouse
Director of SaidSo.co.uk and Chapters Financial



Malcolm Hurlston
Chairman of Financial Inclusion and Markets Centre



Marilyn Cole
Managing Partner of Space



Michael Ward
MD of payingtoomuch.com



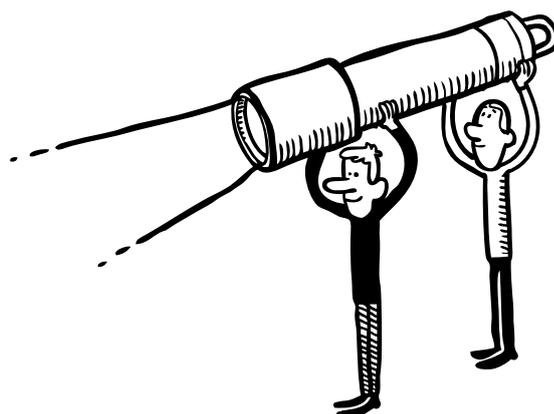
Phil Brown
Head of Policy at LV=



Moderator
John Lappin
Editor of Mindful Money and Retirement Review

Introduction

Robo-Advice: what does it mean for our sector, our market, and its customers?



Robo-Advice is an issue which cuts to the very heart of the challenges and opportunities facing today's financial services businesses, their customers and clients.

It is a key element of the industry-wide debate about regulation and access to advice which is addressed in the newly-published Financial Advice Market Review's final report.

All these discussions take place in the context of a revolution in customer expectations and behaviour.

There is certainly no consensus about the prospects for Robo-Advice, its potential scale and the range of applications it might encompass. Remarkably, even the definition of what precisely qualifies as Robo-Advice seems, as yet, highly fluid.

Our aim with this report – and the videos that accompany it online – is to bring some clarity to the discussions and to help us all better understand the parameters which frame this important debate.

We found the discussion fascinating, enlightening and hugely stimulating and hope you do too.

How do we define Robo-Advice?

Naturally, there are several freely available definitions of Robo-Advice online. Even within the Money Talks panel, the relevant services were alternatively referred to as ‘e-advice’ or ‘romo’ (remote) advice.

Broadly though, there seems to be a loose consensus that suggests Robo-Advice is advice delivered through an online interaction between the customer or client using an automated algorithm and therefore occurs entirely without – or with very limited – human involvement.

Interestingly, in the USA, Robo-Advice is usually taken to mean advice about wealth management; and that, in turn, is generally taken to mean the accumulation of assets.

Where will it impact customers?

There was clear disagreement amongst our panel about how much of someone’s financial life Robo-Advice would impact. For some, the obvious cut-off point was at retirement.

There was debate too, about the fallibility of any algorithm, though of course humans were deemed fallible too. It was noted that with Robo-Advice you could at least guarantee uniformity whilst, with face-to-face interaction, the advice given to an individual client by several advisers could vary significantly.

The panel discussed whether all the components of the advice process could be fully automated or whether a human would always be needed to deliver the final ‘coup de grace’?

Most current services offer some human verification and sense checking, or simply reassurance. However, one major player – LV= (see below) – is already providing fully-automated retirement advice.

While the debate about definitions continues, it was suggested that it was consumers and clients themselves who would eventually dictate the shape of the advice market:



Keith Churchouse

“Here we are as the industry defining what Robo-Advice actually is, but I think it is going to be the public that make that decision over the course of the next few years as to what they seek, whether that be information, guidance or whatever definition of advice is finally used and it will be that choice which will guide us all as to how we offer and use Robo-Advice in maybe ten years time.”



Michael Ward

“If we look at what the definitions of advice are, according to the FCA, the first thing we need is a risk tolerance test, a clever algorithm. The second is the capacity for loss assessment which is the big failing of those risk analysis tools previously; and the third is the risk required analysis.”

The LV= experience

While there was much debate about whether Robo-Advice can be successfully applied in the market without the involvement of a financial adviser, and with the FAMR explicitly encouraging automated advice, it should be noted that one of the forum’s participants already offers full Robo-Advice in the crucial at-retirement market:



Phil Brown

“In June 2015 LV= launched Retirement Wizard which provides fully regulated advice with a personal recommendation, a suitability report and the ability to speak to an adviser over the phone as well. Retirement Wizard proves it is possible to actually deliver a fully automated system within the current regulations.

You get the full protection of the law as you are dealing with FCA regulated mechanisms so you have access to the FOS and FSCS. You have exactly the same protections as if you dealt with an individual.”

Are robots really a threat to traditional IFAs?

Not all IFAs are going to agree with this assessment but, by and large, our panellists believed that the threat to advisers is small – particularly for what might be called ‘fully-regulated financial planning practices’; those that charge fees or a take a percentage of funds under management.



The financials involved, including the reforms to commission, mean that a relatively small number of better-off clients should make this type of IFA practice sustainable and profitable for many years to come.

In addition, it was felt that Robo-Advice would reach the middle market currently not being reached by existing IFAs. To do so, advisers and providers could embrace Robo-Advice systems. Indeed, some advisers might choose to white label providers’ systems.

Most panellists, including those who run advice and planning businesses, therefore saw only a limited threat:



Chris Daems

“I have got a technology business and a regulated independent financial planning practice. We are not concerned at all about an impact on the planning business. We don’t need that many clients who want and need high-quality, sit-down, bespoke consultancy advice to run a profitable business.”



Keith Churchouse

“We run a traditional face-to-face model in Guildford, along with Saidso.co.uk, and I don’t see either business impacting on each other for another decade.”



Phil Brown

“I think Robo-Advice is complementary to a standard IFA practice. It will be looking to less affluent customers than a standard IFA would. Someone with a £250,000 pension fund will want bespoke advice and they will get it from someone who they have been using for a while already.”

Can fully automated Robo-Advice offer meaningful at-retirement planning?

There were dissenting voices from the panel in terms of the effectiveness of automated advice, particularly around retirement planning. And, in general, the publication of the FAMR final report has not significantly changed those attitudes.

Within the parameters of best advice, face-to-face advisers will tend to offer a range of alternatives to clients about their retirement plans i.e. ‘on the one hand, on the other hand’. Some panellists felt this was more appropriate and credible than a single fixed and automated viewpoint:



Billy Burrows

“There is always an assumption that the computer can give you the answer but in my experience often there isn’t a right or wrong answer. You can produce various outcomes but to expect a computer to give you an answer, a right or wrong answer, is a challenge.”

We have to understand the full customer journey. My particular area is at-retirement. There are parts you can automate, but it is hard to see how you can automate the whole retirement journey.”

The regulator's view: Robo-Advice or robo-guidance?

The panel didn't believe that the current regulations held all the answers, though this depended, to some extent, on where delegates were positioned within the debate.

There were several suggestions that the banks had been lobbying hard for concessions that would ease their re-entry into the market, though not necessarily specifically through Robo-Advice.

It was also felt that while the FAMR final report had clearly identified the definitions of advice and guidance as important pinch points, it had not come to any firm conclusions or indicated substantive changes – at least not yet. A clearer definition of advice would certainly be welcome.

The FAMR paper has proved to be very high-level, with the FCA a long way from consulting on and devising new rules.

It was suggested that sufficient flexibility around what actually constitutes guidance rather than full advice could allow comparison sites or other players a more direct route into the 'robo' market.

It was also felt that new players would perhaps enter the market by buying into established Robo-Advice players in a few years time, once it is better established what the winning solution might be.

One panellist was very keen on placing his Robo-Advice service in the FCA 'sandbox' which offers a degree of regulatory protection while innovative solutions are tried out. The panellist was also keen to see how the Advice Unit proposed by the FAMR report could help his plans.



Michael Ward

“There is a huge disconnect. There is no doubt you can use computers to help an adviser produce an advice recommendation more quickly. But the idea that the computer delivers the full and final advice to the customer that they then buy is a fallacy.”



Billy Burrows

“They are starting in the wrong place; if we take advice as making a personal recommendation, then by definition how do we get a robot to make a personal recommendation? I think you have to redefine what advice is. Without a redefinition of advice, it is very difficult to build an automated process.”

As the final report from the FCA on FAMR makes clear – ambiguities about where guidance stops and advice starts are holding the market back.”



Keith Churchouse

“The FCA are going to introduce the sandbox, which will let these systems be put into the sandbox to test the outcomes of what actually is coming out, to see if there is parity in the quality of advice or anything negative in what the outcomes are. We will aim to put Saidso.co.uk into that, once it is available. I think the planned Advice Unit will be a regulatory ‘touch point’ for models, such as SaidSo.co.uk, that are already significantly advanced.”



Phil Brown

“We’re pleased the FAMR recognised that the current different levels of advice aren’t working for consumers and it is absolutely right to recommend a single definition for advice to end the confusion. Our research shows people are confused about the various levels and types of advice and how they differ, and this puts them off taking it.”

“A single definition of regulated advice would help customers to understand exactly what regulated advice is, and show them the value of it. If all advice was full, not simplified, this could also help increase take up of advice.”

How Robo-Advice for debt can bring massive cost advantages

One panellist, Malcolm Hurlston, was able to bring a decade’s worth of experience of automated debt advice to the discussion, which he termed ‘e-advice’.

Although not regulated in the same way, the cost benefits were pretty spectacular, requiring only a very small telephone-based team to support the service. Costs per case had fallen from hundreds of pounds with face-to-face debt advice to single figures.

There was, however, a little cynicism from some delegates about a direct read across to the regulated advice market.



Malcolm Hurlston

“The cost of providing face-to-face advice in the debt sector is £250 a session, telephone is something like £50 a session, online it is less than £5 or about £3 for the same quality of advice.”



Why robo-systems require constant feedback

It is clear from the panellists who are already building and running Robo-Advice services that constant feedback is required, and needs to be built into any credible system.

The experience from e-debt advice, for example, confirms this as one of the strengths of a Robo-Advice system. Even when the feedback from customers is very negative, it proves the system is working as it should be.

Adapting the Robo-Advice algorithm over time can only make the system stronger and more effective according to the majority of the Money Talks panellists:



Chris Daems

“The product is now in a constant state of evolution, just trying to make it more user-friendly and better to use. I don’t think that will ever end for us. It will constantly evolve.”



Phil Brown

“We talk about training algorithms, not training advisers, because the algorithms need to learn. User centred design is absolutely critical. The process must be useable by the end consumer, so much of the work that we have done is to ensure that consumer testing is ongoing.”



Malcolm Hurlston

“A computer isn’t unaided. In the ten years of our experience, you feed back into it whatever experience you have dealing in people’s problems, improving it day by day.”

Who will pay?

Will consumers pay for Robo-Advice in the way that they pay for full advice? The discussion brought echoes of historical debates about whether advice of any sort was ever really free, whether that misconception was the industry's fault and how advice will be valued by consumers in future.

This could also have a bearing on Robo-Advice and remuneration, although the whole eco-system of the web – and the fact it gives access to free tools and information – may have a stronger bearing on consumer behaviour and attitudes.

Therefore, although consumers have learnt to pay for regulated advice through some form of customer-agreed remuneration, some of the panel remained uncertain about whether this could be applied to Robo-Advice.

The panel had been split on whether commission in some form could make a comeback, but this has been ruled out by the FAMR final report.

Panellists also welcomed the decision to extend the tax reliefs offered on employer-arranged advice to £500 from 2017.



Michael Ward

“The surveys say it is the minority of customers that would be prepared to pay up to £200 for advice and many customers say it should be free. Maybe as the financial services industry we have dug our own hole, but if you look at the type of software you can get with Facebook and Google for free, how come you are asking them to use a Robo-Advice module that costs £195? All of this stuff is going to end up having to be free.”



Adam Byford

“If commission was taken away because of its supposed part in creating a bias from the adviser, then you could remove that tendency with an algorithm. Of course, cynically, you could say that bias could be introduced through an algorithm, but you would expect to remove it. You can see how it may sit more comfortably for some customers, than paying for the advice service up front. If people are expecting the Robo-Advice service to be ‘free’, and there is a cost, maybe if it is built in, it is not so in your face.”



Phil Brown

“We agree that changes should be made to the retirement advice tax allowance for employers to make advice more affordable. We called for an increase in the allowance in our FAMR submission as this would incentivise employers to cover the cost of pension advice for their employees and, where low-cost, online advice is used, this allowance could even cover the entire cost.”

What are the keys to customer engagement?

There was certainly a sense that the marketing and client acquisition environment for delivering Robo-Advice is markedly different from that applying to face-to-face advice. Among other things, the behaviour, habits and demands of millennials are now well established and different from previous generations.

Panellists felt there was a need to encourage engagement in a lot of different ways. Some of this is what you might call – with some reservations – traditional advertising and marketing, which may need to be driven by the big brands.

Yet it was also felt that, for Robo-Advice to work, it had to utilise social media to the full. Indeed this provided a huge opportunity for getting the message out there.

Auto-enrolment was viewed as the other significant game-changer because it was bringing many millions of people into contact with financial services for the first time.

The panel felt it would also make sense to consider where more nudges along the lines of the workplace pension opt-out might apply, particularly in retirement planning. This is also to be investigated as part of the continuing FAMR work.

It wasn't just a matter of simply encouraging consumers to consult with a robo-adviser from the start. There needed to be much more provision of information and an emphasis on education – though all delivered in an engaging way:



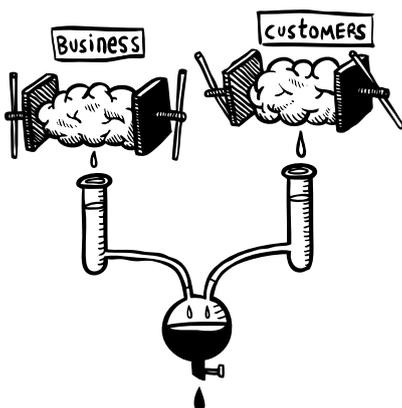
Phil Brown

“What we have done is look at how the process works and we believe the customer journey doesn't start with fact finding – that is actually at the end of the process. You start with a lot of guidance and a lot of information and self-help, which can be delivered through web content and tools. You don't start with the advice. That is where you get the person to understand that they need it.”



Marilyn Cole

“There is still a lot of mistrust, so engaging the consumer has to be the starting point, but how do you keep that engagement going? Is it at point of sale when they want a product or do you need to keep that conversation going with them so when they need an adviser, they may consult with one – whether that is Robo-Advice, face-to-face or a combination?”





Adam Byford

“We need to create a solution for the future rather than reflecting on where we have been. And sitting down face-to-face for advice is not what the next generation want or need. That difference is something we need to overcome. There are big challenges but that has to be the way forward.”



Billy Burrows

“What people want is a trusted brand to give them good information to help them make a decision and to transact all in one place.”

Will a pensions dashboard help drive more people towards Robo-Advice?

Several panellists welcomed the idea of a pensions dashboard as recommended by the FAMR final report. There were concerns about how to secure the data to feed into the dashboard while one panellist suggested that the timetable of 2019 lacked ambition. It was felt that it could be an important driver in encouraging people to take advice. One panellist questioned whether it should contain solely pension information:



Phil Brown

“It’s right that the review recommended the development of a pensions dashboard as the benefits for consumers are clear.

However, the target date of 2019 is too late, and we think this could be delivered sooner. A dashboard could support Robo-Advice by providing most of the information consumers and advisers need online and in one place.”



Chris Daems

“A pensions dashboard is a good idea as it allows for users to have visibility and accessibility to all of their pension pots. However I think the concept is at its most beneficial when all financial products can be delivered on a dashboard together with how these technical elements link to a client’s financial plan. I suspect we’re a little away from this and it would take broad collaboration but ultimately this would be the ideal.”



Marilyn Cole

“The FAMR final report says the Treasury is to ‘convene’ work on a pensions dashboard while challenging the pension industry to help create it. A dashboard that brings together an individual’s state, employer and private pension savings in one place would be of enormous educational benefit and prompt some people to save more.

We believe we could design a highly effective user-friendly dashboard with wide appeal. We have worked on similar projects for clients. Yet it is the quality of the data from various pension providers, employers and trustees and, not least, the DWP that is the key to success. The Government may have to do more than just ‘convene’ the project. Creating a successful dashboard would be a significant achievement.”

How significant is the FAMR final report?

The panel were contacted subsequently to the round table, to obtain some initial views on the FAMR final report. Some panellists saw it as a very significant development that holds out the strong possibility of closing the advice gap.

Other panellists, however, reflecting a broader view among advisers at least, remain rather underwhelmed by the FAMR final report even with the promise of further work. Some are pleased that automated advice has been highlighted as a priority while noting that it is already on offer in the market. The definition of advice and plans to examine what constitutes guidance were also seen as significant though subject to further work.



Phil Brown

“It was good the regulator recognised the value of automated advice as it can help ensure that everyone – no matter how much they have saved – is able to benefit from affordable, convenient advice.”



Chris Daems

“It’s a shame that there were so many issues that seemed to require ‘further discussion’ instead of more immediate action, however this may not stop certain market players continuing to deliver a solution sooner rather than later anyway. However it’s clear that the outcomes of FAMR mean that updating regulation for the digital age will be an evolutionary process instead of one involving revolution.”



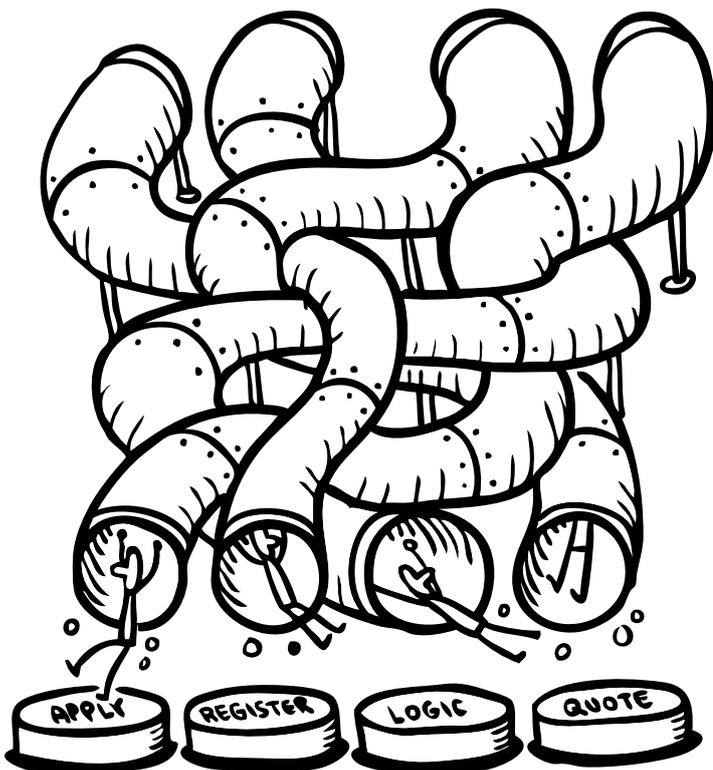
Marilyn Cole

“The FMAR final report has asked the FCA to work on updating the definitions of advice and guidance. Some politicians and some customers may view the debates about what constitutes advice and guidance as unnecessarily technical or obscure. Yet small changes can make a big difference. Anything that provides clarity about just how far you can guide a decision, and where the advice/guidance boundary lies, may help firms refine their automated offers and convince more players to enter the market. And yet, as our panel demonstrates, fully regulated automated advice is already on offer even within the existing rules.”



Billy Burrows

“The current problems in the advice market, especially in relation to the so-called advice gap, need addressing urgently and while FAMR is a step in the right direction something more radical is needed. You only have to read the response from other advisers to realise that most are underwhelmed by the response. To quote a well-known IFA ‘We want something radical, this is a consultation basically saying nothing.’”



Summary & conclusions: the view from Space

We now know more about the direction of Government and regulatory thinking and the suggested FAMR reforms may help smooth the process. Yet we may have to wait for the full judgement of consumers before we can really give the final verdict on Robo-Advice.

That could be in a decade's time, though given how fast things are moving that is probably the maximum.

Things could always change much more rapidly and the focus on automated advice and definitions of guidance and advice may help too. Clearly we all have to be aware of – and prepared to adapt to – the new environment.

Robo-Advice is already a key part of the market in the US and many practitioners in the UK are determined to follow suit; while regulators and policymakers are apparently intent on clearing the way.

That said, established IFA businesses probably don't need to worry about losing clients or market share. They can still afford to pick and choose whether they operate in this market or not. But we are convinced a substantial

market will develop served by fully automated or partially automated advice.

Developing the correct approach to customer engagement will be crucial. It also holds out the prospect of bringing down the cost of customer acquisition. But as an industry, and as individual businesses, it still involves making a convincing case for advice in its many forms.

If financial services can deliver Robo-Advice and automated advice integrated with face-to-face advice, it can surely bring huge benefits to the sector and – though it's quite an ambition – huge benefits to society too.

About Space

Money Talks is hosted by Space, a marketing and technology agency with over 10 years' experience of working solely in the financial services sector.

The agency was formed when an IFA and a Creative Director joined forces to realise their idea: to bring together industry, technical and creative brains in order to help the financial services industry build more rewarding relationships with their customers.

Today we have over 30 in the team and we've built everything from underwriting engines to wealth management platforms and from advertising campaigns to global brands.

Our areas of key expertise

- Research & insights
- Ideas generation
- User experience
- Communications & brand strategy
- Design & content
- Technical development

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