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How the robo-advice revolution will play out

Advisers are worried about being automated out of a job. Nigel Bowen asks if those fears are justified.

Key points

- Robo-services will expand the market, not make advisors redundant.
- In the short term, robo-advice will suit lower-income-earning clients.
- Millennials and Gen Z may embrace robo-advice in a big way.

Robo-advice – technology that can advise people how to invest their funds after they've submitted the relevant information – emerged in the mid-2000s. It got a big push along when the 'big three' US players (Wealthfront, Betterment and Personal Capital Advisors Corp) launched around the turn of the decade.

Some of the biggest robo-advisers, such as the aforementioned Wealthfront, have billions of dollars under management. In Australia, robo-advisors such as Stockspot and InvestSMART have been pioneers. It's reasonable to assume all large Australian financial institutions are now examining whether they should go down the robo-advice route.

Don’t believe the hype

While conceding some of the technology that robo-advisers have developed will be useful in automating grunt work, ANZ Wealth head of product development and platform strategy Patrick Clarke is a sceptic. His boss, ANZ Bank chief executive officer Shayne Elliot has also said that disruptive tech start-ups “don’t keep him awake at night”. Elliot says that’s because “the market here is pretty efficient, so you don’t get the kind of glaring inefficiencies that you have, even in parts of the US, that make it a much more attractive place for disruption”.

“Robo-advice hasn’t taken off in the US the way its backers predicted. Robo-advisers only have a small share of total funds under management,” Clarke says.

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>
> Patrick Clarke, ANZ

“My understanding is, at least in its pure form, with no human element involved, robo-advice hasn’t worked as a business-to-consumer proposition in the American market or elsewhere. I believe people will always want to talk with someone about serious financial decisions. They’re not just going to accept what a robo-adviser tells them. That’s not to say financial advisers won’t make increasing use of technology to deliver their service going forward. But that human relationship will remain important. That remains the case even if computers are doing more of the calculations. Or client meetings are being conducted using advanced video-conferencing technology.”

Fortify Financial Advice Network managing director Glen James agrees with Clarke, though he sees some potential for using robo-advice as an entry-level product for low-value customers.

“I recently had a low-income individual who had some advice needs book an appointment with me. After some time, it became apparent she was too cost sensitive to engage with the high-touch service I was offering. That meeting was a waste of time for both of us. I can imagine businesses offering a budget-priced robo-advice service for people like her. By doing that, they could tap into the huge market of Australians who don’t get any form of financial advice. It would also be valuable in building relationships with people who may upgrade to paying for high-touch, high-cost advice from a human down the track.”

Don’t get too comfortable either

Clarke and James aren’t robo-advice boosters. Nonetheless, they readily concede technological advances will change the way financial advisers go about their jobs.

“A lot of the back-office tasks will be automated. That means financial advisers will have bigger books of clients. They will also be able to spend more time nurturing relationships with those clients,” Clarke predicts.

“However, given 80 per cent of Australians don’t currently get financial advice, I don’t imagine bigger books will result in a reduction in the number of advisors. There will just be more clients coming into the pipeline. Plus, even if calculations are automated, advisers will still need to understand them and be able to explain to the client what the computer is spitting out.”

“I used to take down a potential client’s financial information when they came to see me,” says James. “Now I email them a data-collection form to fill out beforehand, which saves 20 minutes of my time. As they always have, businesses are going to use whatever technology is available to introduce efficiencies. But is a computer ever going to be able to pick up that a client’s wife is squirming whenever a particular investment strategy is suggested?”

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With plenty of evidence to back them up, Clarke and James argue that financial advisers' Baby Boomer and Gen X clients expect human interaction. The great unknown is what happens when Millennials age into the financial advice-seeking demographic in big numbers.

"All that generation has known is technology. Doing things online with no human interaction involved is no big deal for them," the 32-year-old James observes. "It may well turn out that they embrace robo-advice in a much bigger way than previous generations."

"Will younger consumers be more comfortable doing a lot of their fact-finding, data-importing and goal-setting online?" asks Clarke. "I think they will but I also think they will expect to validate everything with someone. They are still going to want to speak with a human being who can provide reassurance and synthesise all the data for them."

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