



# Reimagining financial advice

How digital capability is enhancing, not replacing the financial adviser

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# Robo Advice: What happened to the hype?

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Five years ago, the UK financial media was hyping the robo-invasion. IFAs were told to brace themselves for the digital pilferage of their clients, and many financial services commentators thought that ‘robo’ might just be the long-awaited solution to the advice gap.

## Robo advice – what happened?

It is more than a decade since the first robo advisers launched in the US in response to the 2008 financial crisis, and almost 10 years since Nutmeg announced its arrival in the UK. At the time, many retail investors had lost faith in the financial services industry and, post RDR, there was increasing demand for digital products which allowed customers to manage their own savings and investments online. ‘Robo’ was heralded as the long-awaited answer to the savings and advice gap and to some, represented a very real threat to the traditional advice model.

It is fair to say that threat has not materialised and that ‘robo advice’ has not made a significant dent in the advice gap. But why not? In many respects the ingredients for success are all there: a considerable consumer need, existing technology, and a regulator which has, in principle at least, been supportive in the form of Project Innovate, the Regulatory Sandbox and even some of its own regulatory papers, including FAMR.

One significant challenge is that the numbers just do not add up: low fees on small pots, plus high acquisition costs. Recent estimates suggest that acquiring a new customer can cost up to £500 or more. If we assume a 0.50% charge on a pot of £20K (and many are significantly smaller), this amounts to an annual charge of £100. It would take five years to recoup the costs of winning a customer, and that does not consider on-going servicing, maintenance, or development costs. Significant scale is required to achieve a profit, and our cost assumptions indicate that these digital businesses would need to amass around £20bn of assets under management to get there.

Unsurprisingly then, in recent years, we have witnessed many D2C digital wealth propositions such as Click & Invest, Moola, Fountain and Scalable Capital close their doors. Smaller players have started to move from trying to recruit customers themselves, to partnering with existing, larger businesses which already have an established brand and customer reach; Wealthify’s partnership with TSB is a recent example.

Several propositions also now include a human element to ensure that customers have the necessary support and reassurance when they need it; the technology is being used to augment a human advice model rather than replace it. In the UK, OpenMoney is a great example, Vanguard have launched an advice service delivered remotely, while Tilney have recently announced an intention to launch a hybrid advice offering. In the States both Vanguard and Personal Capital, amongst others, have found the right digital and human mix to create successful propositions.

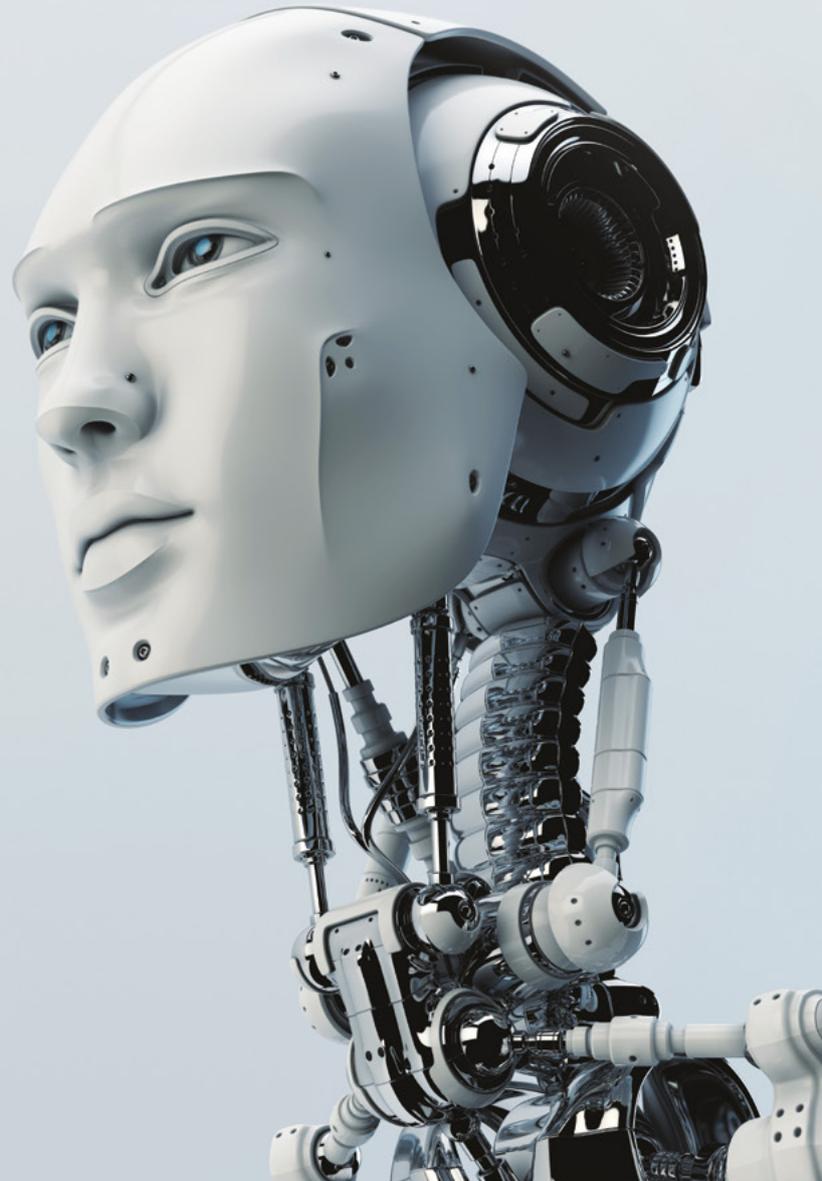
Our view is that new digital capabilities, including digital advice technology, will disrupt the traditional advice model, but not in the way originally envisaged.

Digital will enrich the skills of the advisers, not replace them, and this paper examines how the financial advice process will be enhanced using these new digital capabilities.

“The power of hybrid is in delivering the perfect balance of adviser touch and automation through digital intelligence. It frees advisers to focus on what they do best, drives greater customer engagement, and provides advice companies with the consistency of output they strive to achieve.”

**Terry Donohoe**

CEO Europe – Ignition Advice



# COVID-19 – The Great Digital Accelerator

Since the global pandemic took hold in 2020, the advice community has been unable to meet with customers and share a coffee. The highly personal face-to-face service on which financial advisers pride themselves has become far more difficult to deliver. Out of necessity, firms previously dismissive of digital approaches are now exploring different ways to offer their services. Teams and Zoom client meetings are now everyday occurrences.

During the COVID-19 lockdowns, numerous column inches were devoted to the observation that many traditional advisers have now recognised the benefits of embracing digital capabilities.

If attitudes were changing, advisers would have the opportunity, if they chose, to service many more clients, and over a much larger geographical area. Given what this could mean for the advice profession and the customers it services, Altus tested the hypothesis<sup>1</sup>.

The team interviewed a range of businesses providing financial advice to understand the extent to which recent digital adoption represented true transformation. Whilst the findings indicate a change in attitudes towards the use of digital solutions, they reveal limitations in the extent to which change has been implemented.

The first phase of the pandemic saw many financial planning businesses adopt crisis mode. The emphasis, rightly, was on business continuity – keeping the business running as smoothly as possible while continuing to engage clients during the lockdown period. This against a backdrop of economic uncertainty and considerable investor nervousness. Developments focused on virtual economic updates, the introduction of video conferencing meetings, and the adoption of electronic signatures.

Whilst the technology evangelists might find Zoom meetings and client portals to be unremarkable by today’s standards, the transformation they could stimulate might prove significant. Wealth management and advice businesses have now recognised they can provide the highly personalised, tailored service to their clients in a far more efficient and cost-effective manner, supported in some cases by technologies which just a few short years ago were going to ‘steal’ their clients.



<sup>1</sup> Altus qualitative survey of financial services organisations during May-June 2020

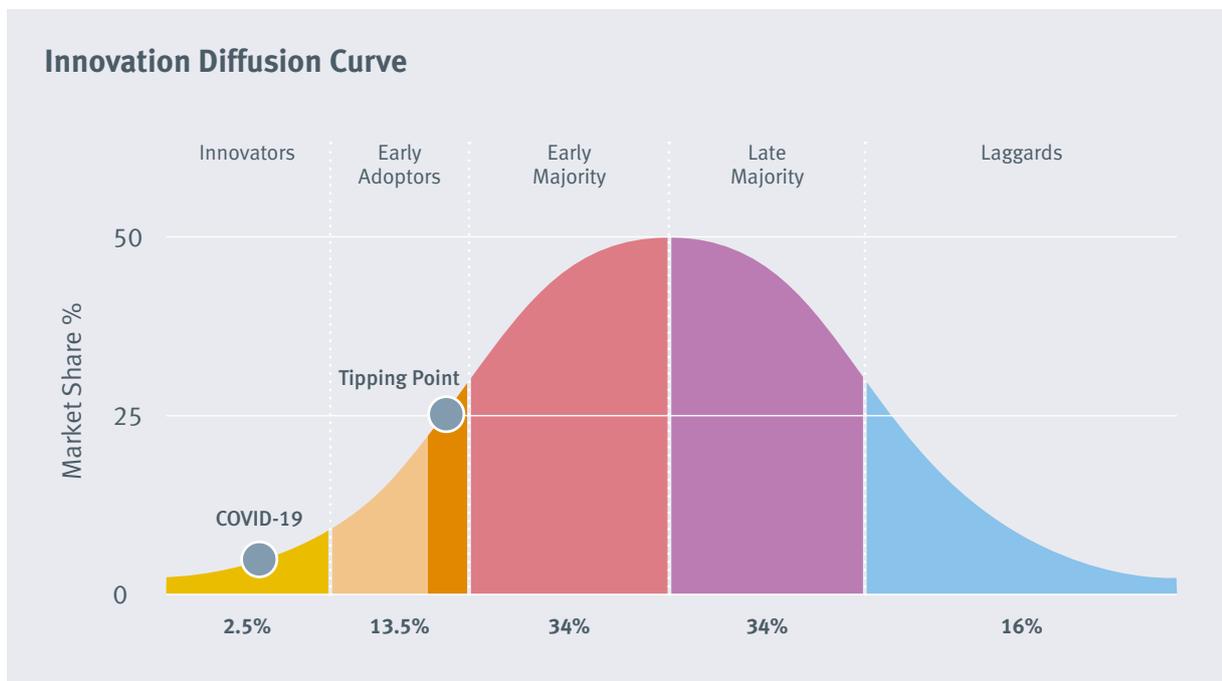
The sector is on the cusp of a paradigm shift. We predict that the digital adoption driven by COVID-19 has the potential to be the catalyst for fundamental change and drastic improvement in the way that savings and investments are managed in the UK, across all sizes of portfolio.

Online banking is a good example of a sector that has seen such a change. Whilst today we could not imagine consuming retail banking services by any means other than a mobile app, there was a time when the idea of online banking was met with considerable nervousness around security by both providers and customers alike. We saw that once attitudes towards new technology became more accepting, the pace of change accelerated quickly.

The innovation diffusion curve below shows how digital adoption rates typically accelerate following initial, often enforced, innovation and change.

“Advisers have proved themselves to be resilient and quick at adapting to fit their customers’ needs...Technology has made the last year easier, with businesses being able to quickly move to the virtual world. In doing so, advisers are finding greater efficiencies and new uses of technology that are helping their business grow.”

**Nick Eatock,**  
CEO Intelliflo, March 2021



# COVID-19 – The Great Digital Accelerator (cont.)

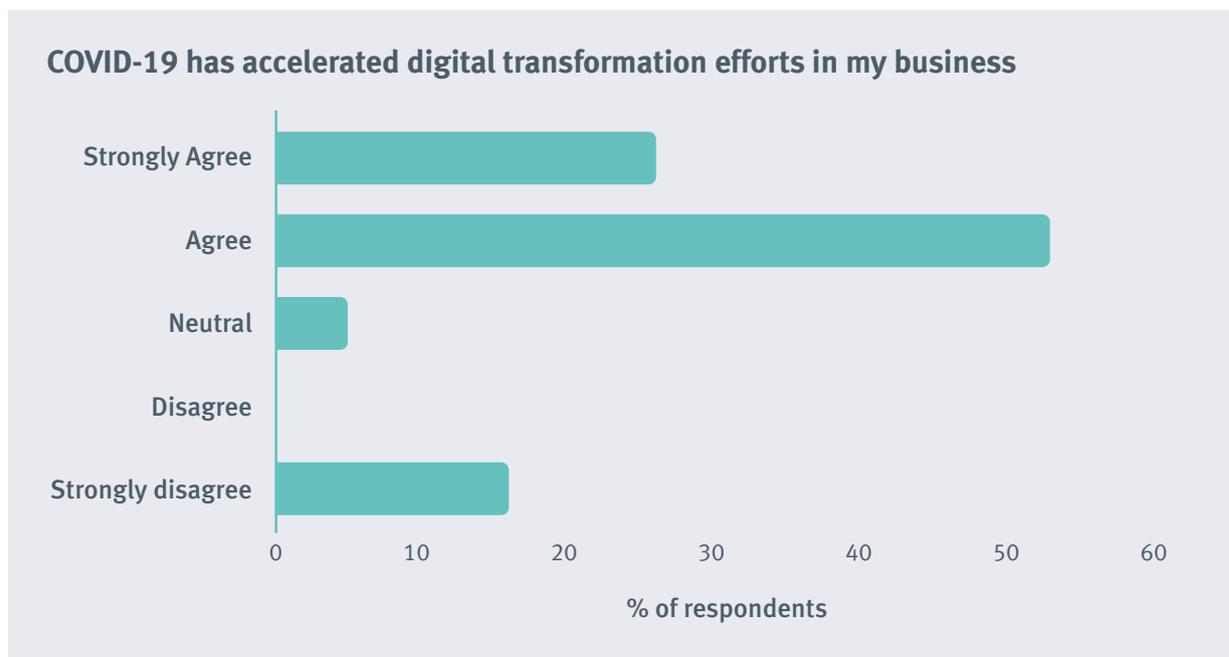
## Is digital health a barometer for digital wealth?

It is often said that there are two things people will always rely on expert, human reassurance for – health and finances. COVID-19 has demonstrated that medical services can, in part, be enhanced by the use of digital capabilities. Take the example of the e-doctor, an initiative which has seen significant increase in use during the pandemic. Video consultations have allowed skilled GPs to provide referrals, prescriptions, and reassurance to a significant number of people in a more controlled way, avoiding waiting lists, crowded surgeries, and unnecessary risk in the process.

We predict that financial advice will follow suit and that hybrid financial advice will gain significant traction in the years ahead and recent Altus research suggests that change has already started to happen.

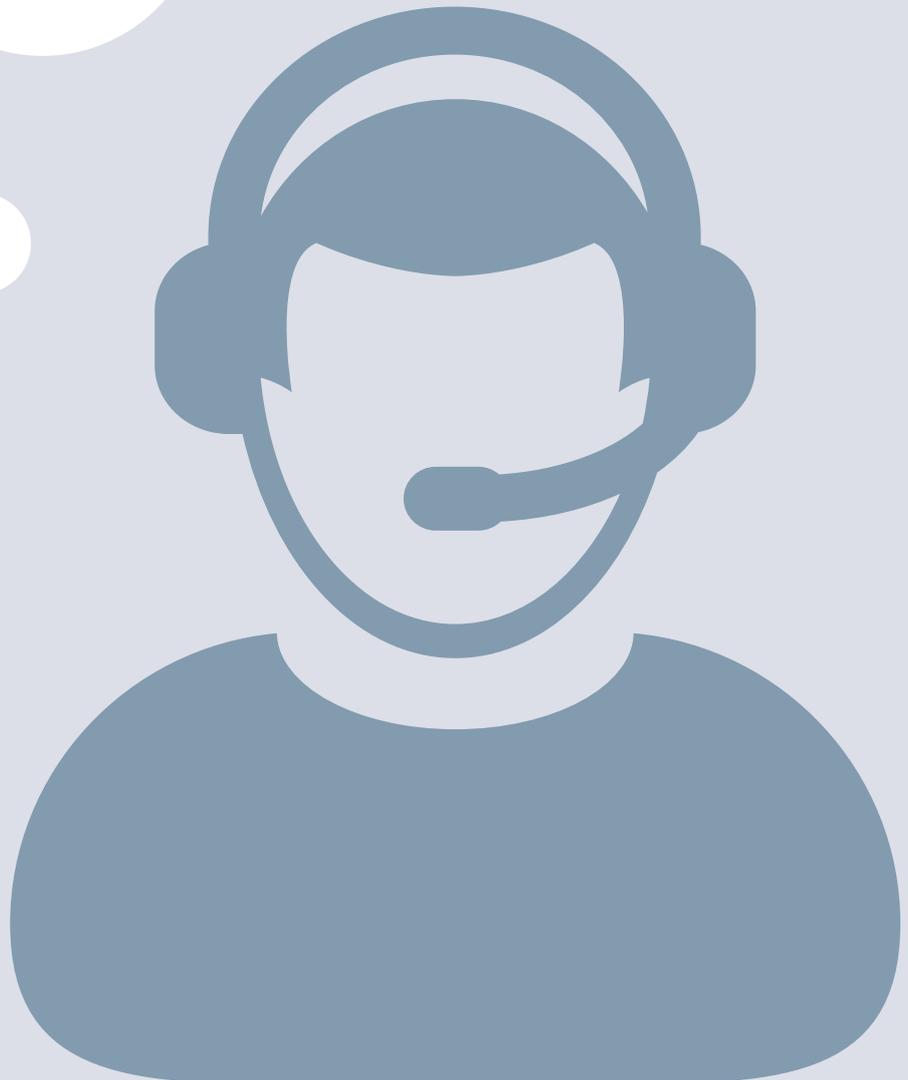
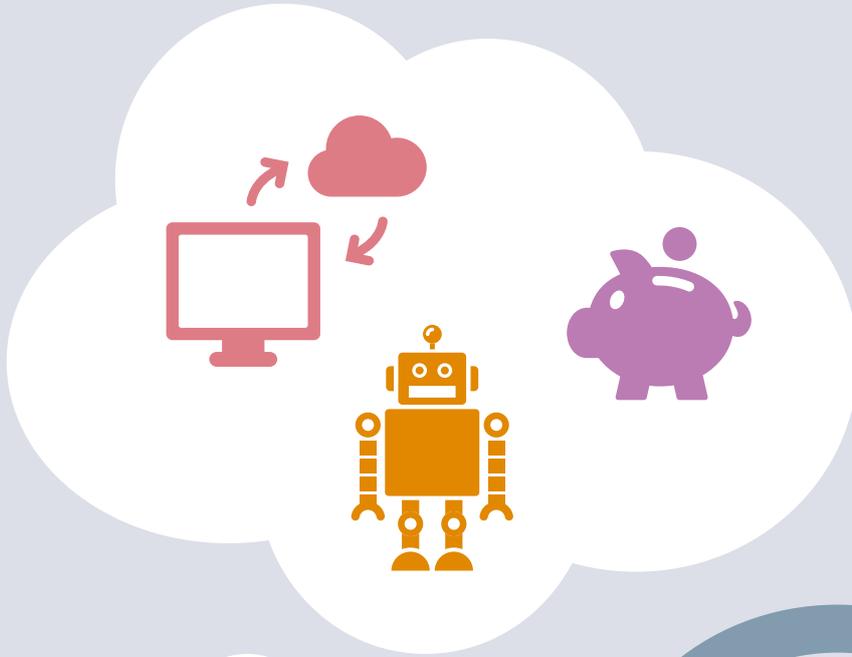
“The tipping point is that magic moment when an idea, trend or behaviour crosses a threshold, tips, and spreads like wildfire.”

**Malcolm Gladwell**  
The Tipping Point



Source: Altus survey of UK financial planning businesses, March 2021

# Reimagining the Advice Process



# Reimagining the Advice Process:

## 1. Engagement & Education

To continue to manage and grow a financial planning business in a remote working environment, it is still necessary to win new clients, engage those clients, and to help them understand some of the terminology and complexities of our industry. The financial planning business of the digital age will be required to find ways to engage a new generation of customers in a manner suited to their digital habits. Early engagement will be critical in attracting the high-net-worth clients of the future.

For those consumers with money to invest but consider an independent adviser either unaffordable or undesirable, trust and brand familiarity play a crucial role. High Street banks are the financial organisations with which consumers are most familiar and have the longest relationship. However, even the banks have struggled in their efforts to acquire customers to their digital advice offerings. Why is this? The digital advice services currently offered by several of the banks assume that their customer knows: how much a suitable amount to invest is, what an ISA is, what their goal is, and how much is reasonable to pay in fees and charges. This of course is often not the case. And sadly, many journeys are hidden, appear 'risky' (especially when compared to 'safe' cash ISAs), and are unengaging and unimaginative. Hardly a recipe for success.

### Engagement & Education

#### WHAT WE'RE USED TO:

##### NEW BUSINESS:

- REFERRALS AND WORD OF MOUTH
- CONSOLIDATION AND PURCHASING OF CLIENT BOOKS
- LOCAL ADVERTS AND HIGHSTREET OFFICES

##### ENGAGEMENT:

- GENERAL MARKET UPDATES SENT/EMAILED TO ALL CLIENTS
- STANDARD LANGUAGE AND USE OF JARGON

##### EDUCATION:

- INDIVIDUAL EXPLANATION/FAQ PAGES
- BASIC RETIREMENT CALCULATORS



- 
- |                      |  |
|----------------------|--|
| <b>New Business:</b> | <ul style="list-style-type: none"><li>• Ecosystems</li><li>• Early engagement of next generation</li></ul>                       |
| <b>Engagement:</b>   | <ul style="list-style-type: none"><li>• Hyper-personalisation</li><li>• Tailored content</li><li>• Subscription models</li></ul> |
| <b>Education:</b>    | <ul style="list-style-type: none"><li>• Videos</li><li>• Interactive tooling</li><li>• Personal and Relevant Data</li></ul>      |

## Effective engagement

Effective digital engagement using behavioural design techniques and appropriately sign-posted education takes a customer on not only a journey, but their journey. If the customer is saving for a deposit on a first home, the service should automatically understand the impact of mortgage rates on a customer's goal and communicate this. If saving for school fees, the digital service should know what those fees are in the local area. Pefin<sup>2</sup> is a good example of an AI-powered service in the US which aims to achieve this level of personalisation.

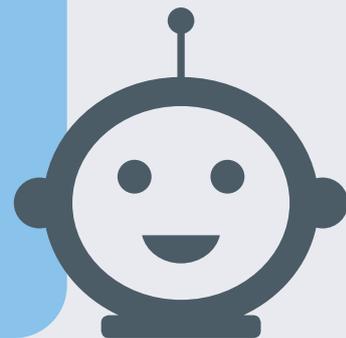
We now see micro segments of customers being created with the service adapted for each, improving the level of comfort and consequently trust felt by the customer. Services such as Wealthfront (US), Pefin (US) and OpenMoney (UK) address the wider financial needs of the customer rather than simply identifying a risk profile and aligning that with a fund or portfolio in a rigid, linear fashion, typical of robo 1.0 solutions.

Access to third party data has improved. More sophisticated integration technology and the evolution of application programming interfaces (APIs) has made financial ecosystems, and the holistic perspective they offer, a reality. Who best to curate that ecosystem? The institution with which the customer has a close financial relationship. This could be a bank, of course, but it could also be a wealth manager or financial adviser, depending on the individual.

## Who do you think you're talking to?

Hyper-personalisation has gathered momentum in recent years; new financial engagement and education services not only consider the reason a customer is investing, but also the preferred channel through which they wish to engage, the language-style and tone of voice which best suits them and the time they wish to consume the service. We believe we will see far more of this type of development in the months and years ahead.

Chatbot style engagement has become popular as it allows a digital journey to recognise the type of language being used by a customer and talk to them on their terms – known as 'computational persuasion'. Academic research into this approach to engaging customers from UCL and the University of Edinburgh has seen the launch of solutions such as Persuadr and Aveni, while Smart Pension Trulience has developed a range of prototype avatar virtual assistants. Early deployments of such technology has enabled marked success in reducing drop off rates, providing account detail or general information, or even identifying customer vulnerability – a particular challenge in a digital environment.



<sup>2</sup> <https://www.pefin.com/>

# Reimagining the Advice Process:

## 1. Engagement & Education (cont.)

### Social Science

Love it or loathe it, social media is now core to marketing strategy and should be embraced when engaging potential customers. The digital generation demonstrate a propensity to share their experiences, good or bad, with every corner of their network. We already see online trading platforms such as eToro – a social trading platform – offer a “copy me” function and the ability for investors to “follow” one another. We can expect this trend to continue with successful digital advice services of the future being those which embrace the social element of investing. Investors find comfort in the reassurance that shared experiences offer, with many digital services segmenting customers into “people like me” communities. Ellevest’s account on Instagram is a great example of this:

“Ellevest was built by women, for women. The financial industry wasn’t. Become a member and do more for your money and career.”

It is estimated that on average, in the UK last year people spent over 30 minutes a day<sup>3</sup> using their Instagram app. Engaging future customers early, and in a manner which suits their habits, will help shape a financial planning business for future success.

### Video boom!

Once a customer has been engaged, keeping their attention has often proven difficult. Whilst we in the financial services industry pride ourselves on our catalogue of three letter acronyms, industry-specific jargon can be confusing to potential customers and lead to higher than expected drop off rates from online journeys. Digital solutions allow us to advise more customers, over a wider geographical area but if key recommendations are not understood, customers are unlikely to accept the recommendation and put the plan into action.

There is a wealth of research advocating the use of video to relay new information to an audience, and many businesses have found success by using educational videos, such as those supported by Money Alive, instead of lengthy FAQ pages and descriptions of terms.

Workplace schemes are in the privileged position of being able to use actual customer pension data to guide them through a video explaining how an increase in contributions could affect their quality of life in retirement without the need for any customer input. Employee benefits consultants now consider this kind of feature when designing retirement packages.

<sup>3</sup> Source: eMarketer

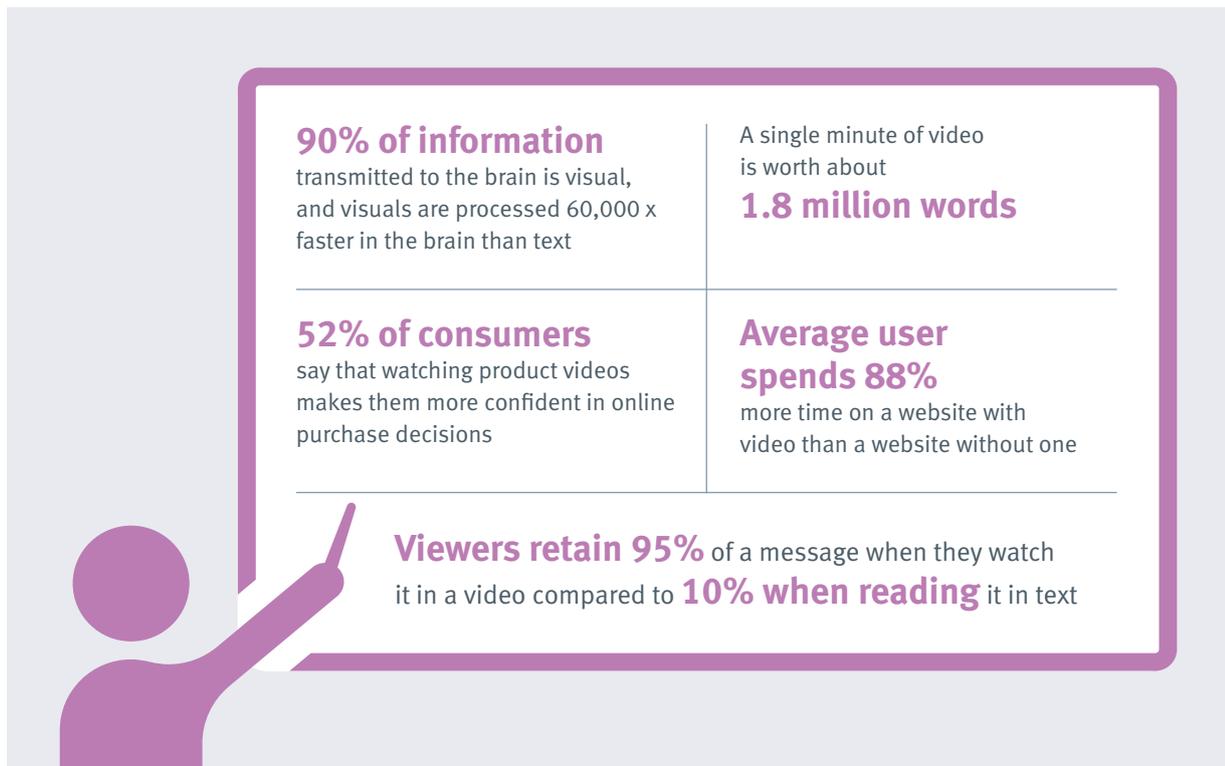
## Gamification – buzzword or benefit?

Using gamification techniques can help drive behavioural change and educate customers. Scenario-based journeys or scores for achieving certain task ‘levels’ are far more effective in helping customers understand the impact of savings and investment than generic articles in small text containing unfamiliar terms and phrases.

Risk profiling solutions such as BeIQ and Oxford Risk have been lauded for their application of scenario-based, behavioural finance techniques in assessing and understanding a customer’s attitude

to risk and loss prevention. These apply scenarios rather than questionnaires to understand how an investor is likely to behave towards their finances and allow for more consistent, auditable advice to be delivered with greater administrative efficiency.

The financial services industry has often been accused of deliberately over-complicating itself to protect the perception of adding value. In the digital age, where the informational advantage is reduced, the winning propositions will be those which engage and educate customers using the language, tone and channel which suit them best.



Source: Visual Literacy: Learn to see, see to learn: Dr Lynell Burmark

# Reimagining the Advice Process:

## 2. Fact Finding

The most time consuming and therefore costly element of the financial advice process is fact finding; gathering the information required to provide meaningful and suitable advice to a customer.

- What are their personal details – full name, address, NI number...
- What are their goals and what is the relative importance of those goals?
- What savings and investments, pensions and protection plans do they currently have?
- What debt do they owe?
- Do they have any dependants – younger or older?
- What is their typical income/expenditure?

All this information and more can be found on the small hand-held device customers carry around in their pockets. Yet the financial advice community still spends hours capturing this information from a customer and various financial services organisations before entering it into a system which will then allow them to provide a recommendation.

Post-lockdown, businesses are already more cost conscious and fact finding represents one area where digital capabilities can lower the cost of delivering advice. And it's not just cost; the right digital infrastructure improves customer service, provides more convenience, and delivers a better quality and level of detail on which a financial plan is based.

### Fact finding

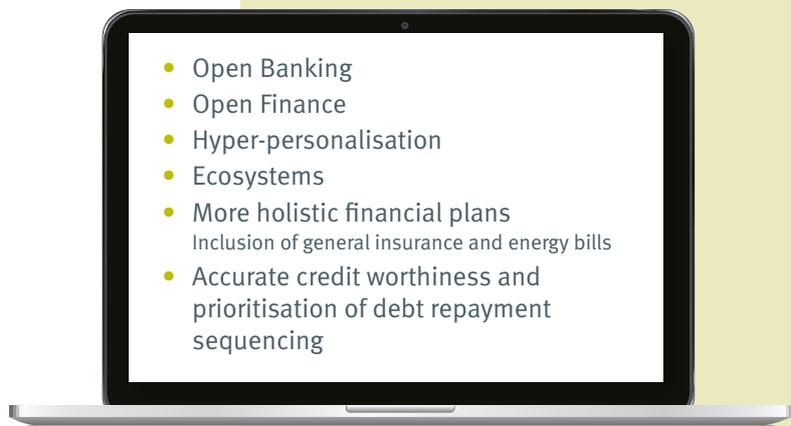
#### WHAT WE'RE USED TO:

##### FACT FINDING AND DATA GATHERING:

- IN PERSON QUESTIONNAIRES, NOTED DOWN ON PAPER FORMS
- HIGH ADMIN COSTS ASSOCIATED WITH DATA ENTRY FOLLOWING CLIENT MEETINGS
- DELAYED, INTERRUPTED PROCESSES WHILST DATA IS GATHERED FROM PRODUCT PROVIDERS



- Open Banking
- Open Finance
- Hyper-personalisation
- Ecosystems
- More holistic financial plans  
Inclusion of general insurance and energy bills
- Accurate credit worthiness and prioritisation of debt repayment sequencing



## Open Banking and Open Finance

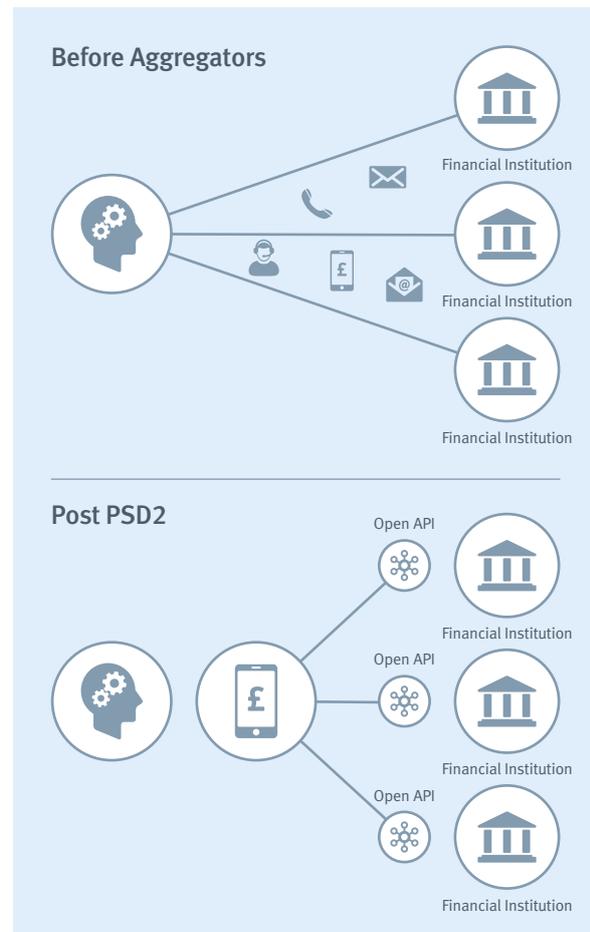
Open banking is a banking practice that provides third-party financial service providers open access to consumer banking, transaction, and other financial data from banks and non-bank financial institutions using APIs.

Traditionally, banks owned the customer relationship. The bank protected the data it held about customers and their financial behaviour to leverage it (often poorly) to market additional products. In doing so, banks protected their monopoly and kept competitors at bay. Open banking has changed that, making customer banking data available to third parties, including financial advisers.

If nothing more, open banking presents the opportunity to streamline the advice process. Pre-filled fact finds and cash flow modellers, for instance, would save advisers time in not only understanding their clients, but also presenting recommendations. Going a step further, cash flow modellers integrated with a client portal or app would allow customers to assess – in real time – how altering their financial arrangements could impact them in the future – improving both education and engagement as a result.

## Cash Management

The topic of how to manage the cash position of a customer is often debated amongst financial planners. Many advisers recommend keeping a certain amount in cash to draw down on in bear markets to avoid the effects of reverse pound cost averaging. Keeping that cash on a platform incurs additional fees and charges. Open banking allows adviser visibility of a client's cash position without the need for it to be placed in a product which will carry an additional, unnecessary charge. In future drawing an income from a portfolio or drawing from cash reserves will be automated, based on market conditions.



# Reimagining the Advice Process:

## 2. Fact Finding (cont.)

### In Practice

The insight which open banking affords a financial adviser can improve the extent to which a tailored, personal service can be offered. Changes in banking activity can trigger nudges, allowing the customer to receive advice at an appropriate time rather than having to wait for their annual review meeting.

Open banking data supports the adviser in creating detailed financial profiles. How does a customer act when they receive a bonus for instance? Is it there one minute and spent on clothes and electronics the next? Or is it sensibly placed into the savings or investment product? If the former, is there an education or advice need? Many solutions automatically categorise customer spending and use a dashboard to summarise that spending, identifying opportunities to reduce unnecessary expenditure and redirect those funds towards saving and investment goals. Adviser back-office software provider Intelliflo recently reported<sup>4</sup> that in the three weeks following the launch of their open banking capability, advisers identified approximately £20bn of “held away” assets.

**‘Open Finance’** is the term used to describe the extension of Open Banking data-sharing principles to enable third party providers to access customers’ data across a wider range of financial domains and products, including savings and investments. The regulator itself has expressed that Open Finance has the potential to transform the way consumers and businesses use financial services<sup>5</sup>.

Potential consumer benefits articulated in the FCA paper include:

- Automated switching and renewals, reducing the current friction and improving the ability to shop around (e.g. motor renewals)
- Developing personal financial management dashboards to allow consumers to have an entire view of their arrangements, enabling them to understand and optimise their financial position
- Accurate creditworthiness assessment and increased access to credit to allow third parties to see overall cash flow and identify suitable credit (e.g. prioritisation of debt repayments sequencing)
- Advice and financial support services by helping customers make financial decisions and making it easier for clients to share information with advisers/wealth managers (e.g. pre-population of KYC/fact-finding)

<sup>4</sup> <https://www.ftadviser.com/your-industry/2020/09/23/intelliflo-s-open-banking-push-finds-20m-hidden-assets/>

<sup>5</sup> <https://www.fca.org.uk/publications/calls-input/call-input-open-finance>

There will of course be challenges associated with adoption. Interoperability amongst financial institutions will rely on common standards – yet to be agreed – and there is naturally an increased risk of scams and fraud associated with mass availability of customer data.

Despite the challenges associated with its adoption, open banking/finance represents a significant opportunity to improve customer outcomes:

- Increased switching to more cost-effective products
- Improved engagement using personal finance portals
- Increased savings and investment amounts
- Administrative efficiencies through automated payments and processes

The role of the adviser is paramount to realising the potential benefits of open banking and finance. Those moving quickly to implement a digital solution which either allows their customer to transact themselves or informs the advice being given, will have a head start as others attempt to catch up.

## Knowing and understanding your customer

Even if retrieved in the most technically sophisticated manner, facts and figures do not tell an adviser everything they need to know about a customer. Individuals behave differently and one of the true skills of an adviser is to recognise a customer's behavioural traits which may inhibit them achieving their financial goals (see the panel below). This is a skill on which many financial advisers pride themselves and is one of the reasons the delivery of financial advice has not yet been entrusted to an algorithm.

That said, advisers must be confident that the elements of the process being entrusted to a digital journey can recognise and adapt for heuristics and behavioural biases.

“We believe that the future of advice has to bring together the best of human capability with the increasing power of technology. Only humans can ever provide the provocation, reassurance and education critical in delivering advice but great technology can make advice more accessible and inclusive by cutting costs to reduce barriers to entry, helping clients visualise solutions, enabling them to stay on track to achieve their goals and nudging both the adviser and the client when interventions are needed.”

**Richard Caldicott**, Deputy CEO –  
M&G Wealth Advice

# Reimagining the Advice Process:

## 2. Fact Finding (cont.)

There are various ways in which digital solutions can be designed to address this requirement:

- **Be specific.** Avoid vast generalisations and ensure communications are highly personalised to enable the customer to understand their exact situation rather than commenting on similar scenarios and leaving the customer to interpret how this might relate to them.
- **Provide a holistic view.** Rather than separating product types, design journeys which consider interdependencies and prioritisation between products. e.g. if we save more into our ISA, does that reduce the amount we can afford to pay in life assurance premiums and if so, what does this do to our sum assured? What impact does this have on our goals and our priorities?
- **'Chunk up' the process.** Do not expect customers to sit down for hours to input all the necessary information in one sitting. Split the journey into segments and promote the feeling of reward by

completing one. Nudge customers to continue the journey – “you’re 25% of the way to getting yourself on track!”

- **Educate.** Explain financial terms in a simple way and at the relevant stage in the journey. Use gamification techniques to model scenarios and bring concepts to life.
- **Timely contact.** Engage and nudge customers at an appropriate time. Intercept panic selling during crisis periods with video messages reminding investors of how markets have recovered previously.

Whilst measures can be taken to ensure that a customer is aware of the effect of biases during the fact-finding process, the hybrid model will utilise a video call for the adviser to discuss the plan with the client, or even just to check in during the process to ensure everything has been understood. The inter-personal abilities of the financial adviser can still be put to work, but in a more efficient way.

### Behavioural traits often evident during the financial planning process



**Mental accounting**

Allocating wealth to different mental accounts and treating them differently when it may be appropriate to do so



**Overconfidence**

Making overly optimistic assumptions about one’s financial future



**Herding**

Seeking comfort from ‘being with the crowd’



**Hyperbolic discounting**

Preferring smaller payoffs now over larger payoffs later



**Financial loss aversion**

Aversion to ‘losing’ leads some people to make suboptimal investment decisions, e.g. taking too much risk



**Anchoring**

Making decisions based on an arbitrary reference point



**Status quo bias**

Preferring to stick with the current situation, e.g. not taking advice, not updating life insurance



**Time loss aversion**

Aversion to ‘losing’ time on administration tasks such as managing finance

# Reimagining the Advice Process:

## 3. Delivering Advice

Once all relevant information has been captured and validated, the next step in the advice process is to digest that information and formulate a plan for the customer. Previously, many digital advice propositions were restricted to thinly veiled sales journeys; the swift identification of a customer's appetite to risk, which was then aligned to a portfolio or multi-asset fund. This approach does not address the needs or improve the outcomes of those who genuinely require advice.

Encouragingly, we now see digital advice software suppliers constructing meaningful journeys designed to answer the questions being asked by those unable to engage a financial adviser under the traditional model:

- How much should I save?
- When can I retire?
- Should I buy an annuity?
- What is a sustainable level of income I can take in retirement?
- What are the tax implications of doing X?

Businesses such as Conquest Planning, EValue, HUB FS, Ignition Advice and Wealth Wizards have all made significant strides in recent years towards answering these and many other important questions through their financial planning software or regulated digital advice journeys.

### Delivering advice

#### WHAT WE'RE USED TO:

- PHYSICAL MEETINGS TO DISCUSS FINANCIAL PLAN
- ARDUOUS CASE CHECKING
- BASIC ADVICE NEEDS SERVICED DIGITALLY
- GENERIC PORTFOLIO CONSTRUCTION



- Video planning meetings
- 100% case checking algorithmically
- Complex advice needs serviced digitally
- Highly personalised portfolio construction

# Reimagining the Advice Process:

## 3. Delivering Advice (cont.)

### The Regulatory Definition

Full regulated advice, simplified advice, streamlined advice. Is the distinction important to a customer? No. But a positive outcome is. PIMFA<sup>6</sup> has recently called for a review of the definition of advice in their Future of Advice Policy Paper which, if properly considered, could remove many of the barriers to offering meaningful digital advice.

If we accept that the lines are more blurred than they used to be, and that what really matters is that a customer receives advice and achieves an outcome appropriate for their circumstances, the industry can deliver a greater range of advice needs and meet a wider range of clients. An acknowledgement that certain needs might only need education or gentle guidance, whereas others may require more nuanced analysis, can promote a mix of services, including those delivered algorithmically which can promote financial inclusion and help the industry make a meaningful dent in the advice gap.

### Algorithmic Advice and Culture

An algorithm is, in simple terms, a finite sequence of well-defined, computer-implementable instructions, typically to solve a class of problems or to perform a computation. Essentially a set of rules, navigated based on user input, to reach an answer. It can be implemented to deliver a range of advice cases. That is if we know how a human adviser would act based on a given set of inputs.

Often when we work with large advice businesses to implement digital solutions, one of the most time-consuming elements of the programme is defining and documenting the 'house advice rules'. It is easy to assume that an advice business has a clear framework for offering advice but when asked to write it down, significant variance in the way that advice is delivered across the firm can emerge.

“At a basic level, [advice models] will include online triage and fact-finding, and client meetings over Zoom or Teams. More mature models will use data integration to automate the fact find, and algorithms to generate personal recommendations. Whether the model is basic or mature, however, the adviser is here to stay, at least for the foreseeable future. The research is clear that clients still want a human touch in the journey to help build the trust and reassurance that comes with more traditional models.”

**Mary Harper**, Managing Director of Aviva Financial Advice 'The future of guidance and straightforward advice', Professional Adviser, 17th March, 2021

Being faced with the task of documenting in black and white the way in which an advice function behaves can assist the organisation in better understanding its culture and ethos, something which if well defined, appeals to staff, regulators, and customers alike.

<sup>6</sup> PIMFA Future of Advice Policy Paper

## The Personal Touch

Should a financial plan be generated online, it is reasonable to expect customers to request a meeting with an adviser to discuss it. It allows them to validate that they have understood everything correctly and for the adviser to review the recommendation and make any necessary changes. Many D2C solutions such as Nutmeg which started life with a digital-only focus, have now introduced a human element to the process. For others such as Wealthsimple and Openmoney, a human adviser has always been an option. This hybrid approach allows for a positive customer outcome to be achieved, effectively and efficiently.

## At- and In-Retirement

For many people, one of the most important times in their financial lives is the point at which they must decide what to do with the savings they have accumulated for their retirement. Pension freedoms have driven both advised and non-advised customers towards the use of income drawdown products which offer more flexibility than the traditional annuity, albeit the guaranteed income is lost. The certainty an annuity provides however, either taken in isolation or alongside a drawdown product, represents the best outcome for many individuals at the point of retirement and catering for clients of this nature is now achievable digitally.

HUB FS and Ignition Advice have created digital solutions capable of identifying the most tax efficient financial plan for a customer's retirement. Complex calculations and information gathering can be conducted digitally to create a retirement plan which can either be put into action online or reviewed with an adviser.

“Market research shows people approaching retirement with modest wealth can achieve the greatest relative benefit from receiving holistic financial advice. Unfortunately, this group of middle Britain savers are effectively priced out of receiving traditional financial advice. Digital-led hybrid financial advice services such as Destination Retirement can improve the lives and wellbeing of millions of UK households. Technology enables scaled solutions to efficiently process the complex tax, cashflow and retirement calculations at lower cost so that affordable solutions are accessible to an unserved community.”

### Gary Thrower

Director of Strategy and Digital Advice, HUB FS

# Reimagining the Advice Process:

## 3. Delivering Advice (cont.)

### Selecting an Investment Strategy

The information a customer gives an adviser, be it online or in person, directly or indirectly, should contribute to the investment strategy recommended. For years, the factors contributing to the construction of a portfolio have been limited to risk appetite and income requirements alone. This falls short of capturing the investor's true investment profile, particularly in today's market which has seen a significant increase in investor awareness of the ESG factors. Wealthsimple is a good example of a business ahead of the curve in this regard and offers socially responsible and Halal investment options.

Constructing an investment portfolio is a complicated business. It requires the collection and analysis of a large amount of data while balancing a range of variables and their relative importance. This is a problem well-suited to the application of big data and AI techniques. While the application of such techniques in portfolio construction is currently in its infancy, we expect to see online journeys designed with factors such as ESG preferences, goals and timeframes and propensity to accept fees and charges considered in creating more personalised portfolios.

We also envisage the rise of sophisticated modelling software which allows customers to test adjustments in importance weightings, investment amounts, and timeframes before validating their understanding with an adviser where necessary. Such an approach could potentially witness the demise of traditional discretionary managers in years to come if they do not evolve their approach.



### Compliance & Case Checking

One of the most important and time-consuming functions for an advice operation is compliance and case checking. Ensuring that the advice being delivered to its customer is compliant, ethical, and in keeping with what has been promised to the customer and in their best interests. If suitability reports are being generated by paraplanners or advisers individually, and the degree to which these represent the house advice view is based on the training or induction programme attended when they first joined the business, that output is likely to vary significantly. This inconsistency leads to a higher volume of advice cases needing to be checked, more time spent reviewing files and an increased likelihood of the advice being contested or a complaint received.

Delivering advice journeys using a predictable algorithm which behaves consistently, irrespective of which registered individual is assigned to the case, provides risk and compliance departments with the comfort of knowing that the basis of the advice was compliant and in line with the house approach.

There will be instances where an adviser may, for good reason, wish to change the recommendation produced by the algorithm, but justifying a change on an 'edge case' is far less time consuming than reviewing every single advice case that has been written. The digital hybrid approach of a video call to review the recommendation produced online, also allows all advice meetings to be recorded, further improving the quality assurance information available to the business.

“The use of digital can improve the compliance process by not only ensuring the basis for advice is consistent and compliant, but also by modelling alternate scenarios and outcomes to prove the suitability of the recommendation given.”

**Andrew Storey**  
Proposition Director, EV

## Governing an Algorithm

Delivering advice using an algorithm can reduce risk, but it also poses other interesting questions: How do we govern an algorithm? How can we be certain the technical solution is behaving in the right way? What was the integrity of the data we collected?

The key is always the accuracy and completeness of the data being input. Any algorithm is only as good as the quality of the data going in. This represents another area where the hybrid solution trumps that of either an individual or a completely digital approach. Implementing steps in the customer journey to review the quality of the data being collected, test customer understanding, and answer any questions raised during the process, allows for administrative efficiency while ensuring the customer remains well informed and confident in the process.

Almeida (2016)<sup>7</sup> concludes that there are three key areas in governing an algorithm: accountability, technical assurance, and transparency. When introducing an algorithmic solution into the business, the nature of risk and compliance can change. Businesses deploying digital or hybrid solutions must ensure they have the relevant skills available to construct a framework capable of ensuring the accuracy and relevance of the rules. Algorithm oversight can be achieved, and increased efficiency and robustness can be enjoyed by risk and compliance departments, but first, change is required, in both process and in mindset.

<sup>7</sup> What is Algorithm Governance? (Almeida, V, 2016): Article for IEEE Internet Computing

# Reimagining the Advice Process:

## 4. Communications & On-going Servicing

A key challenge to any digital advice proposition is providing an on-going service. Early iterations of the original D2C robo propositions simply invited customers to repeat a new business journey, checking if anything had changed in the investor's risk appetite, assets, or goals. This approach proved a frustrating experience for customers, reducing engagement in the process.

Customer attitudes and expectations towards the way in which they consume services are changing. It is estimated that £350bn is set to move in the way of intergenerational wealth transfer from Baby Boomers to Gen Xers and Millennials in the next decade<sup>8</sup>, and financial planning businesses are under pressure to meet the expectations of the next generation of client.

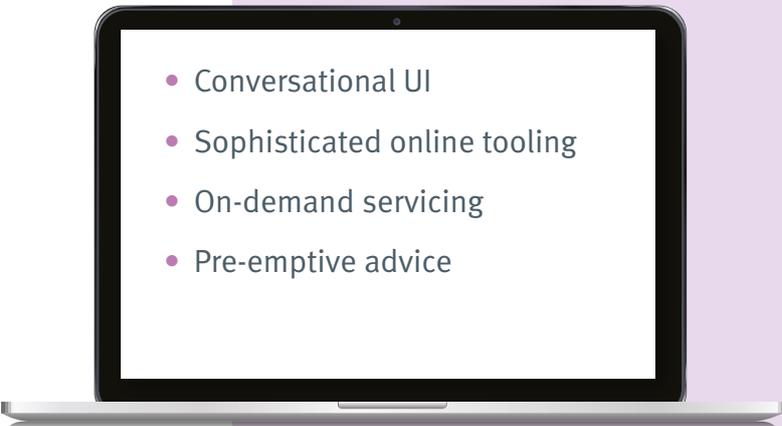
That generation is unlikely to accept an annual meeting, leafing through a laminated document of pie charts and bar charts, as an on-going service. The expectation will be for the advice service to be available at the time it is needed, accessing real time data. This may take the form of a video call to discuss a decision being contemplated or the automatic monitoring of investment portfolios to ensure that they are still aligned with a customer's profile, (a good example of this is the solution designed by Clever Adviser Technologies<sup>9</sup>, in conjunction with research from the CASS Business School). Digital portfolio monitoring can also assist financial planning businesses in meeting their MiFID and PROD obligations.

### Communications & On-going servicing

#### WHAT WE'RE USED TO:

- ANNUAL REVIEW MEETINGS IN ADVISER OFFICES
- BASIC CLIENT PORTAL ACCESS
- TELEPHONE ADMIN TEAMS FIELDING CALLS



- 
- Conversational UI
  - Sophisticated online tooling
  - On-demand servicing
  - Pre-emptive advice

<sup>8</sup> Dunstan Thomas Wealth Management

<sup>9</sup> <https://www.cleveradviser.com/>

Research from Australia into the “emerging affluent” segment found that whilst eight in ten respondents wanted their initial meeting face-to-face, they were happy to move online for their “follow ups” and would pay an annual fee for the service<sup>10</sup>.

“Pre-emptive advice” is also now being explored in detail. Yatta<sup>11</sup>, a financial wellness-focused organisation based in Ireland, is using open banking data to identify patterns in income and expenditure to recognise where an advice need or a vulnerability might emerge. While there is sure to be a line which, if crossed, begins to feel intrusive, it is encouraging to know that the technology is increasingly available to provide customers with a service at the point at which they need it.

The FCA has also noted in its pensions and retirement income review<sup>12</sup>, the need for services on demand, particularly in the retirement space. We expect the Regulator to maintain a focus on the extent to which those providing retirement advice are meeting the potentially changing needs of their customers on an on-going basis.

“For advised and unadvised individuals, demand for a new style of service seems to be increasing: ‘availability for ad-hoc advice’ took the top spot.”

Embark Investor Confidence Barometer, March 2021

## 98% of viewers

valued their adviser giving them access to their account online

## 94% of viewers

agreed they were better informed ahead of their advice meeting

## 9/10

the average score viewers gave for the quality of information

Source: Money Alive, March 2021.  
Based on a survey of over 5000 viewers

<sup>10</sup> Braun. A. “Inside the heads of the emerging affluent”. (2021)

<sup>11</sup> <https://www.yatta.ai/>

<sup>12</sup> <https://www.fca.org.uk/firms/pensions-and-retirement-income-our-guidance-firms>

<sup>13</sup> Ubisend 2016 Mobile Messaging Report

# Reimagining the Advice Process:

## 4. Communications & On-going Servicing

### Communicating with customers

Given the volume of assets estimated to be transferred over the next ten years, those likely to be successful in the future are those who engage the next generation early, and in a manner which suits their preferences. This is a fact which has not gone unrecognised by financial advice firms with half of the firms surveyed by Altus citing client comms and reporting as a digital transformation priority.

Simple financial needs (such as an ISA or a JISA) can be catered for using conversational user interface in isolation and research from Ubisend<sup>13</sup> suggests that digital chat is the preferred means of communicating amongst millennials. The hybrid model will see pre-defined “kick-out” criteria defined for cases which require a conversation with an adviser, something which can also be requested by the customer.

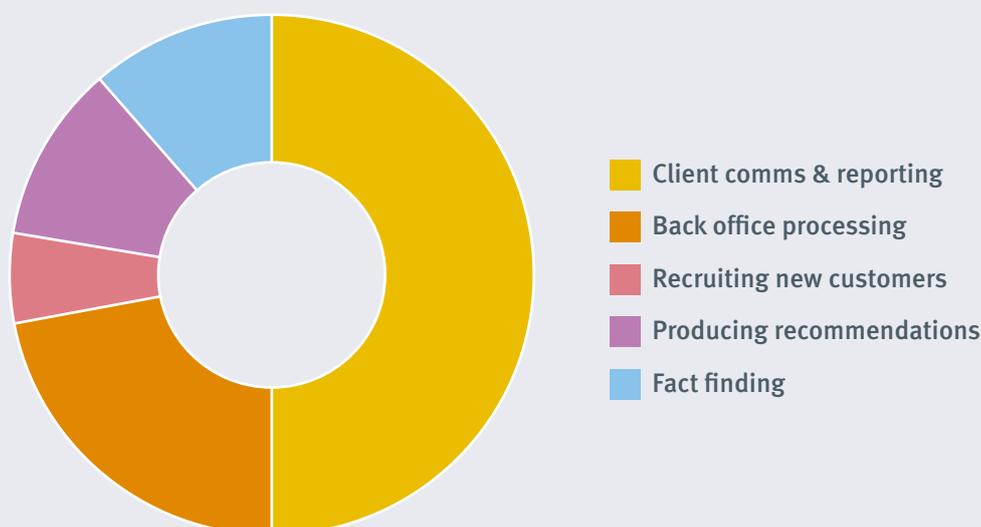
An AI powered conversational user interface allows the demands of the next generation of customer to be met in an appropriate manner,

while improving early engagement in financial products and services.

Implementing a conversational user interface carries with it a range of benefits:

- It provides a blank canvas, rather than a restrictive drop-down list, for customers to express themselves – improving the quality of data gathered from an online journey.
- As more data is collected, the quality of the advice improves.
- Preferred customer language and tone can be recognised, and the service adjusted to suit, improving comfort and trust with the process.
- Easier navigation and does not rely on a previous knowledge of terms and concepts at hand.
- The time taken to complete a journey can be drastically shorter than using an online form as “non-procedural” information gathering allows for multiple pieces of information to be collected at once.

### The area of most importance where digital transformation is concerned is:



Irrespective of the mechanism by which they are engaged and communicated with on an on-going basis, there are several core principles which, if applied, will help deliver value to customers:

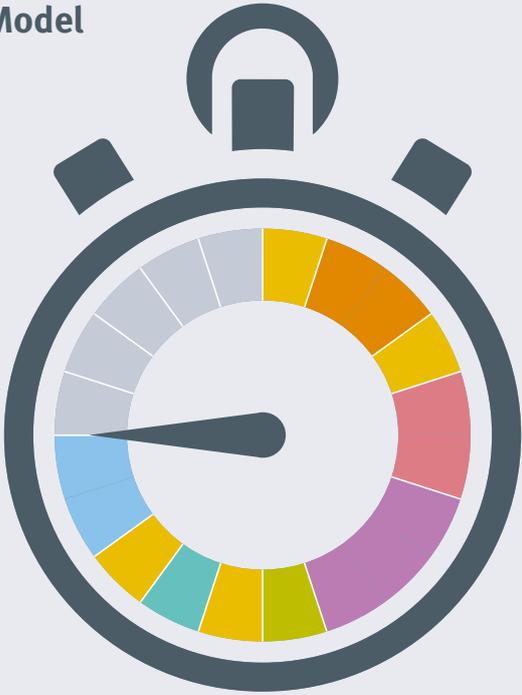
- Communicate at a time and via a means which suit the customer.
- Be aware and confident of what the service being delivered is and the value it brings.
- Be mindful of changing customer attitudes and expectations.

“We understand that the best possible option for all potential clients in the advice market is to see a human advisor, but there are too few of them and it is prohibitively expensive for many. All our research leads us to believe that the next best alternative to a human adviser is a conversation UI, as this is the closest experience possible.”

**Nick Hall** – Head of Advice  
Wealth Wizards

# Potential for time saved

## Traditional Model



- Driving to and from meetings
- Fact Find
- Research
- Suitability Report Writing
- Compliance Checking
- Present Recommendation
- Transacting

Total Time:  
**15 hours**

## Digital Hybrid Model



- Answer questions during online journey
- Review advice provided by algorithm
- Online presentation meeting

Total Time:  
**3.5 hours**

# Making it happen

It is one thing to decide strategically that the business and its customers would benefit from a new digital solution, but that is where the hard work begins. Designing a proposition, defining the operating model and technical architecture, potentially selecting a software partner, agreeing commercial terms, planning implementation and delivery, and configuring and testing the solution all need careful consideration before the benefits of the new digital service can be enjoyed.

## Defining the proposition and choosing a partner

Having a well-defined proposition and operating model and a set of clear requirements before engaging potential partners, gives the business a head-start in the procurement process. Planning the adviser and customer experience can help identify areas of potential friction and areas in which the software is expected to deliver certain capability.

Given the high number of software suppliers operating along the digital wealth value chain, and the variance of solutions on offer, it is essential that any search for a potential partner is started with certain key questions answered:

- What is the business need (e.g. serving existing customers, attracting new customers of a certain demographic)?
- What is the customer need our proposition will address?
- What are the business drivers (improving operational efficiency, driving revenues or margin)?
- What are the timescales to which we are working?
- What are our core design principles and what do our key customer journeys look like?
- What are the cultural traits we are looking for in a partner?

Successful partnerships in the digital advice space are often those between two parties which share not only cultural values but also a detailed knowledge of the sector. The collaborations which result in the most powerful propositions are those formed with software suppliers who truly understand the world of financial advice. Developing algorithms based on a robust set of advice rules enables the business to review the appropriateness of their current rules and update them where necessary. A favourable software partner will contribute to this process and the overall service being delivered to customers will improve as a result.

# Making it happen (cont.)

## Configuration

The cadence of regulatory change, coupled with the pace at which consumer expectations and preferences evolve, makes the ability to make changes quickly a critical requirement. As with software solutions generally, there is a vast difference amongst digital advice software vendors in their ability to configure any “out of the box” solution to reflect the demands of an individual client.

A degree of configuration will always be required up front to ensure that the solution reflects the firm’s design principles and advice rules. But when selecting a solution to implement, it is important to consider the extent to which the business can manage its own changes on an on-going basis. For instance, if the advice function decides that it wishes to adjust the amount an investor keeps in reserve (an emergency fund) before allowing them to invest, raising a change request with the supplier, and watching it sit in a queue is less than ideal. Increasingly, solutions are being designed with minor configuration in mind and tools are

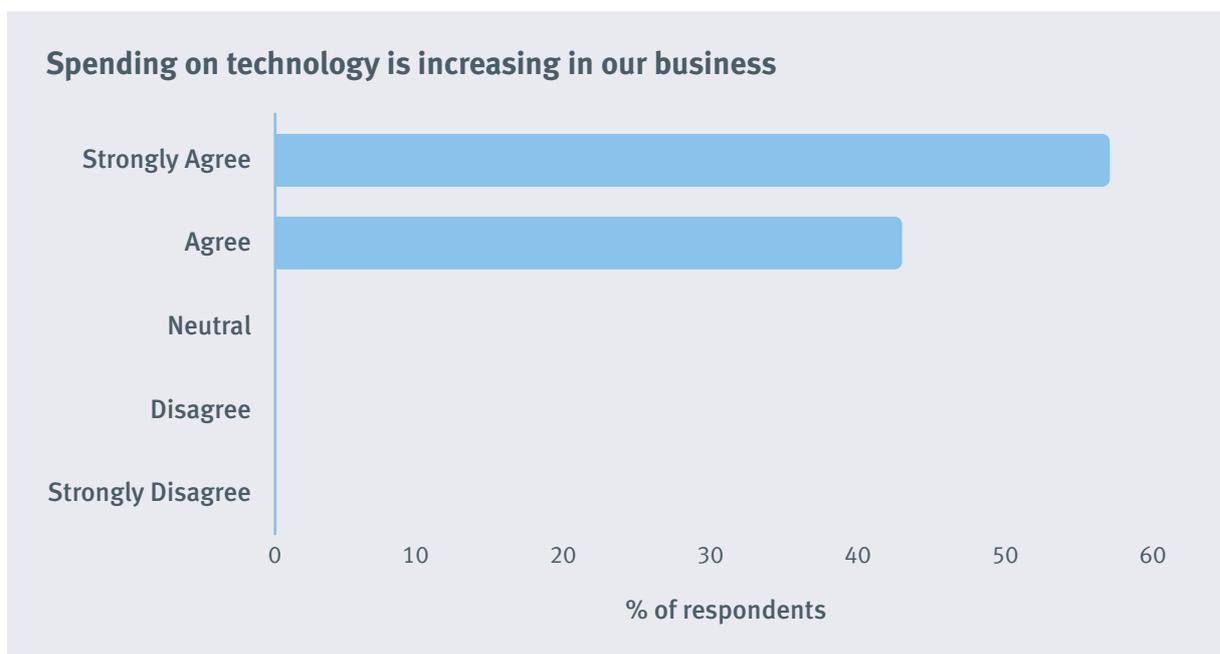
being given to the business to implement such changes.

Configuration dashboards are increasingly common but vary in technical complexity. Having the ability to make minor changes to algorithms – but the process requiring a high degree of technical skill – can create a key person dependency within the business. The “Journey Builder” being developed by Ignition Advice is a good example of how using ‘drag and drop’ functionality to configure journeys allows business users to implement change quickly.

When implementing a digital advice capability, organisations should be mindful of how the solution will be updated on an on-going basis. Maintaining control of change will ensure that regulatory obligations can be met, and that the solution will remain current.

## Commercials

Altus research shows that adviser spending on technology is increasing across the board, but spending in a cost efficient manner can prove difficult.



Source: Altus survey of UK financial planning businesses, March 2021

Often a challenge to implementing a digital advice solution is the commercial construct. On the one hand we have software suppliers who have devoted significant effort to developing their product and as such, value the solution highly. On the other we have an advice firm which is charging a relatively small fee for the advice (often as a percentage on a small pot) and need to generate a profit.

There are a variety of models suppliers have developed. “Transactional”, “Per User” and “Revenue Share” are common models adopted in the market today. Each have limitations which can be managed with appropriately structured contractual terms. Implementation fees are common, and some partnerships also see ancillary services such as training, support, hosting and document configuration charged for.

Whichever commercial model is applied, each party should maintain a degree of flexibility and agree on mutual success factors to ensure that the value being derived from the software is measurable and rewarded appropriately.

## Implementation

Having selected a supplier and agreed commercials, the focus will invariably turn to implementation and delivery. Achieving a cost efficient and timely implementation is crucial to ensuring that the relationship between software supplier and client begins as each party would like it to continue.

Delivery methodologies may vary between suppliers, but irrespective of how the project will be structured, several key principles remain important:

**People.** The team included in the sales and procurement processes should remain visible and accountable throughout the implementation programme. Too often we see key individuals vanish on to the next opportunity after contracts have been signed, leading to tension from the outset.

**Governance.** The project should be structured to allow for key decisions to be made as early as possible, risks to be managed and the focus to remain on the project’s core objectives. A change and design authority should be created with key stakeholders from both sides in attendance.

**Business Readiness.** If the implementation of a new solution changes established processes for customers or advisers, it is imperative that these groups be engaged, trained (where appropriate) and updated at the appropriate time. Sudden changes to ways of working have the potential to cause unrest which can impact the perception and ultimately the success of an initiative.

**Testing.** A comprehensive testing approach should be designed and should be performed by a variety of roles both inside and outside of the project. Test phases should include basic “smoke” testing, advice scenario testing, compliance testing, customer scenario testing, device testing, and comprehensive user acceptance testing.

Structuring an implementation programme with these key areas in mind and working with a supplier which has an established, but flexible approach to each can ensure that the relationship is designed for success, both initially and on-going.

# Hybrid Advice Case Study

## BACKGROUND

In 2020 M&G brought together a number of established businesses to form a new wealth management division, with total assets of £28bn.

The new division – under the brand identity M&G Wealth - is core to M&G’s strategy to expand their service offering for advisers and their clients, and their existing customer base.

A critical part of this strategy is their ambitious growth plans to address the “financial advice gap”. The self-employed restricted salesforce is growing alongside the development of a new low-cost hybrid advice model.

Commenting on their strategy, Richard Caldicott, Deputy CEO, M&G Wealth Advice said:

“There is a huge, and growing, demand for financial advice. Our vision is to enable the best possible financial futures for our clients, with a planet-friendly advice service that is truly accessible and inclusive.”



**IGNITION  
ADVICE**



Comprehensive strategy and business case planning



Detailed proposition and customer journey design



Target operating model definition and documentation



Partner search and selection



Advice rules and journey configuration



Implementation and delivery

## WHAT HAPPENED

Working closely with Altus, M&G completed a detailed proposition design including target customers and channels, the services and solutions to be provided, and the key design principles. The joint team defined the set of capabilities needed to deliver the proposition, and designed the target operating model, including organisational structure. The team also illustrated how existing and new technologies needed to ‘talk’ to each other - the technical architecture - to deliver the ambition.

Once this had been completed and approved, the team assessed the digital advice software supplier landscape of over twenty vendors against detailed criteria to create an extremely strong shortlist of four suppliers. Following ‘use case’ workshops, in-depth senior team discussions and detailed due diligence, M&G selected Ignition Advice as the supplier with the shared vision, sector knowledge, UI capability, technical maturity and working flexibility to help achieve the programme ambition. Working with a behavioural design consultant to research customers and advisers, the M&G Wealth / Ignition Advice / Altus team is now designing the customer and adviser experience, including the hybrid advice proposition.

# Conclusion

## Delivering financial advice in a digital world has changed shape significantly in recent years.

Despite the rapid evolution of technology across the sector, business results have demonstrated that pure digital advice is a challenging proposition to deliver profitably. Customers need timely engagement, adequate coaching and the reassurance which comes with a human point of contact. In a more cost-conscious environment where customer preferences and expectations have changed, a hybrid approach – bringing together the best of human and digital capabilities – is needed.

There is, however, not a single definition of the “hybrid” or “bionic” model. It is not as simple as categorising approaches into face-to-face advice, digital advice, or hybrid advice. Hybrid can take different forms; at one extreme, a human adviser based proposition underpinned by tech to do the ‘heavy lifting’, and the other, a primarily digital experience – including an advice algorithm – supported by a person. The primary aim is to provide customers with the necessary information, guidance, and advice if it is needed, to make informed decisions regarding their financial futures. The extent to which this is done in a digital (or human) manner will depend on proposition, customer profile, and the complexity of their advice need.

Since the COVID-19 pandemic we have seen attitudes towards the use of digital capabilities shifting among the financial planning community. Enforced use of relatively simple digital capabilities has revealed how these tools can enhance the advice process both from an efficiency and a customer experience perspective. Whilst the technology being adopted only scratches the surface of what is possible, this seemingly minor attitudinal change has the potential to act as the catalyst for profound change across the sector.

This leaves the advice industry poised for a significant digital transformation. Banks, life companies and smaller propositions have developed or are introducing hybrid advice models, while the suppliers of digital advice software solutions are refining their configuration and implementation models to enable swift, flexible delivery. We expect the adoption of B2B digital advice solutions to enrich, rather than replace, the traditional advice process to notably accelerate over the next five years.

But a word of warning. The industry is littered with the remains of time-consuming, costly programmes which were undertaken simply because everyone else was doing it. Do it for the right reasons. Your reasons. And selecting the right partner is key. Partnering with an organisation which brings specific industry expertise, along with the necessary flexibility to adapt to changing internal and external factors can help the business adapt and grow, both now and into the future.



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# Altus White Papers

With our focus firmly on the regulatory, strategic, propositional, operational and technological challenges our clients face, Altus understands the most pressing issues for financial services. We publish market insight, industry commentary and are at the forefront of industry debate.

## ARTIFICIAL INTELLIGENCE

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### The evolution of financial advice

‘Artificial intelligence: the evolution of financial advice’ considers how computers can now ‘outsmart the humans’, and whether Artificial Intelligence can really deliver financial advice.

## ADDRESSING COSTS

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### Giving your platform wings

‘Giving your platform wings’ is an uncompromising look at the challenge facing investment platforms as they continue to seek sustained profitability.

## AUTOMATING ADVICE

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### Rise of the Machines

‘Rise of the Machines’ explores the theme of robo-advice and looks past current implementations to the future of a smart-connected, personal financial management, well-being and lifestyle digital adviser.

## DISSECTING INDUSTRY ISSUES

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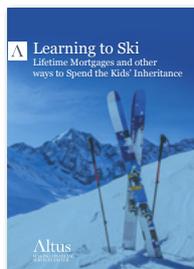


### The Lose-Lose Game

‘The Lose-Lose Game’ pulls apart the true cost of pension saving for vulnerable workers and questions the foresight of government policy.

## LIFETIME MORTGAGES

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### Learning to Ski

This white paper sets out to quantify the scale of the savings gap for baby boomers and how equity release will inevitably have to be used to help make up the shortfall. We then describe some of the challenges the industry must solve to make equity release more affordable for customers and as sustainable as possible for providers.

## REGTECH

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### Regulation is eating the world

‘Regulation is eating the world’ examines how firms currently deal with the growing volume of regulation, some of the challenges involved and how new technology might help.



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Category	Value 1	Value 2	Value 3	Value 4	Value 5
Q1	120	150	180	200	220
Q2	130	160	190	210	230
Q3	140	170	200	220	240
Q4	150	180	210	230	250
Q5	160	190	220	240	260
Q6	170	200	230	250	270
Q7	180	210	240	260	280
Q8	190	220	250	270	290
Q9	200	230	260	280	300
Q10	210	240	270	290	310



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