Capital Markets | Future of Investing

The Rise of Robo-Advice
Changing the Concept of Wealth Management

High performance. Delivered.

The concept of "robo-advice"–the use of automation and digital techniques to build and manage portfolios of exchange-traded funds (ETFs) and other instruments for investors–has gained significant attention within the wealth management industry.

Although robo-advice to date has gained only a miniscule share of assets under management (AUM), it presents investors with an interesting value proposition— with a price reduction of as much as 70 percent for some services—and its rate of growth is both rapid and accelerating. "Digital" wealth-management assets, including those at traditional firms, are projected to reach between $55 billion and $60 billion by the end of 2015.[1]

Much of the initial uptake and interest in robo-advice is coming from the "mass-affluent, delegator" market segment, which has traditionally been underserved. We expec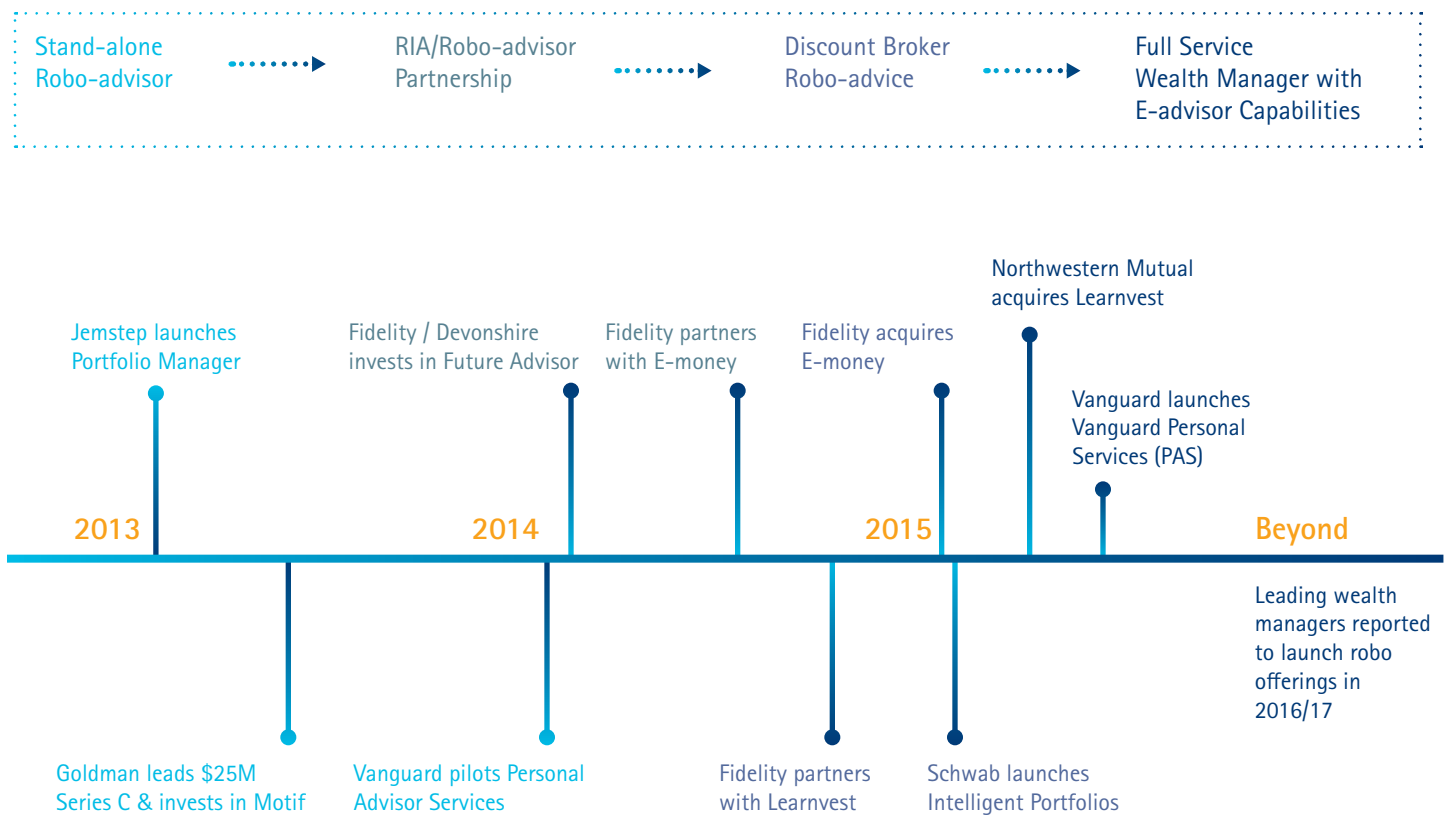t discount brokers to use robo-advice to push further into advice delivery while leveraging their traditional direct engagement model; similarly, full-service advisors are looking at robo-advice as a way to serve smaller accounts and increase advisor productivity. Robo-advice capabilities also offer particular benefits to insurance companies as a way of expanding their presence in wealth management while allowing agents to maintain their focus on insurance sales.

Overall, we believe robo-advice capabilities will effect profound and permanent changes in the way advice is delivered.

Different Firms, Different Approaches to Robo-Advice

As seen in Figure 1, wealth management firms have taken a variety of approaches to robo-advice services. Some have launched their own services, others have partnered with other providers, and still others have bought formerly independent players.

Figure 1. Approaches to robo-advice capabilities

Stand-alone Robo-advisor ....► RIA/Robo-advisor Partnership ....► Discount Broker Robo-advice ....► Full Service Wealth Manager with E-advisor Capabilities

Jemstep launches Portfolio Manager

Fidelity / Devonshire invests in Future Advisor

Fidelity partners with E-money

Fidelity acquires E-money

Northwestern Mutual acquires Learnvest

Vanguard launches Vanguard Personal Services (PAS)

2013 **2014** **2015** **Beyond**

Leading wealth managers reported to launch robo offerings in 2016/17

Goldman leads $25M Series C & invests in Motif

Vanguard pilots Personal Advisor Services

Fidelity partners with Learnvest

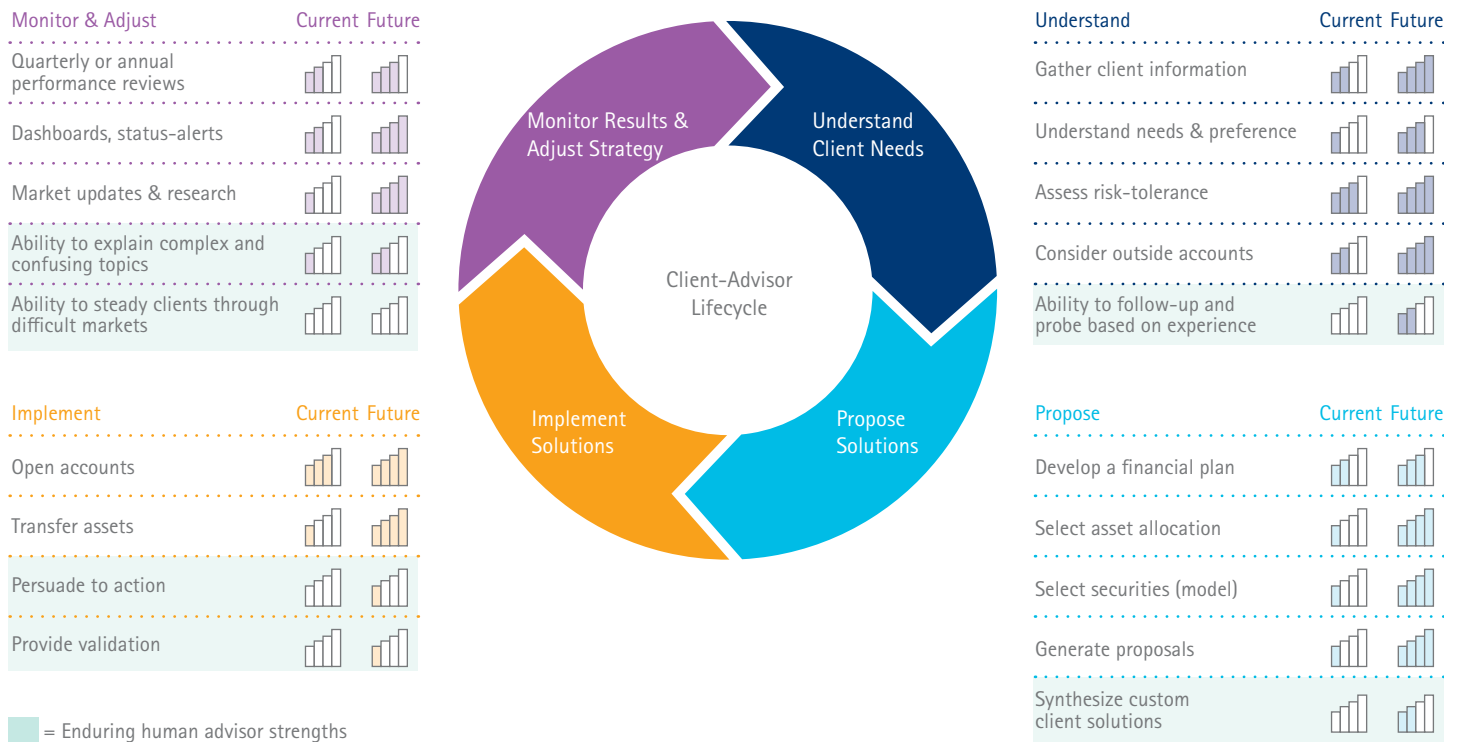Schwab launches Intelligent Portfolios

Source: Accenture Research

What Robo-Advice Capabilities Can Do

As seen in Figure 2, current robo-advice capabilities remain fairly basic. In general, they use simple surveys to profile clients and to assess their needs. An asset allocation is proposed, adjusted and implemented. Portfolios are monitored, rebalanced and reported on.

Robo-advice streamlines the account opening process, and its ability to transfer assets is increasing. All in all, it represents a useful basket of services at an attractive price, but today it won't meet the needs of investors with even moderately complex financial lives.

Figure 2. Current robo-advice capabilities

Monitor & Adjust — Current / Future
- Quarterly or annual performance reviews
- Dashboards, status-alerts
- Market updates & research
- Ability to explain complex and confusing topics
- Ability to steady clients through difficult markets

Implement — Current / Future
- Open accounts
- Transfer assets
- Persuade to action
- Provide validation

Understand — Current / Future
- Gather client information
- Understand needs & preference
- Assess risk-tolerance
- Consider outside accounts
- Ability to follow-up and probe based on experience

Propose — Current / Future
- Develop a financial plan
- Select asset allocation
- Select securities (model)
- Generate proposals
- Synthesize custom client solutions

Client-Advisor Lifecycle:
- Monitor Results & Adjust Strategy
- Understand Client Needs
- Propose Solutions
- Implement Solutions

= Enduring human advisor strengths

Source: Accenture Research

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What Robo-Advice Capabilities Will Do

We anticipate that competition, innovation and new technology will dramatically increase robo-advice capabilities in the near future. Future versions will consider the client's complexities by adapting questions based on earlier responses.

In developing a financial plan, they can assimilate multiple goals, including college savings, planned home purchases, retirement, protection needs, estate planning and the need for health care and/or long term care coverage. In proposing investment solutions, they will be able to incorporate outside assets, handle individual securities, ladder bond portfolios, consider low tax basis holdings, and allocate around illiquid positions. They will help clients understand their portfolios by providing information and learning in the context of the financial results and market information being presented.

There are also elements of the robo-advice experience that clients prefer over traditional models. They like the privacy offered by a digital solution and the ability to learn, and to chart their own path. These benefits will be expanded on in future releases.

Over the next decade and beyond, emerging technologies, such as cognitive computing, will power major advances in robo-advice capabilities. We anticipate a rapid evolution towards an automated advisor assistant that can even provide complex advice, and that will also allow clients to interact with the assistant in a multi-step process rather than a one-time effort. This will help to serve clients even more effectively.

The Importance of the Human Element

While robo-advice capabilities are improving dramatically, we believe that personal connections will remain essential for many investors.

There are parts of the client-advisor relationship—such as reassuring clients through difficult markets, persuading clients to take action and synthesizing different solutions—that should remain the province of the financial advisor for the foreseeable future.

It is therefore essential to develop a unified client-advisor experience that seamlessly brings together the best of human and robo-advice capabilities. Understanding where robo-advice can complement and enhance relationships will be key for most full-service wealth management firms.

# Impact on the Business Model

Over time, we believe that robo-advice will have a significant effect on the wealth management business model. Investors who have low-cost and reasonably effective alternatives to traditional wealth management programs will not be willing to pay premium prices unless they see real differentiation and value.

This may come in the form of demonstrably better performance in terms of investment management or in the provision of value-added services by wealth management firms.

We do not believe that financial advisors are going away. Accenture research indicates that 77% of wealth management clients trust their financial advisors and want to work with them to grow and manage their wealth.[2]

Furthermore, 81% say that face-to-face interaction is important—the highest figure of all channels.

Financial advisors will remain central to wealth management, but robo-advice will add new capabilities that wealth management firms will need to adopt and integrate.
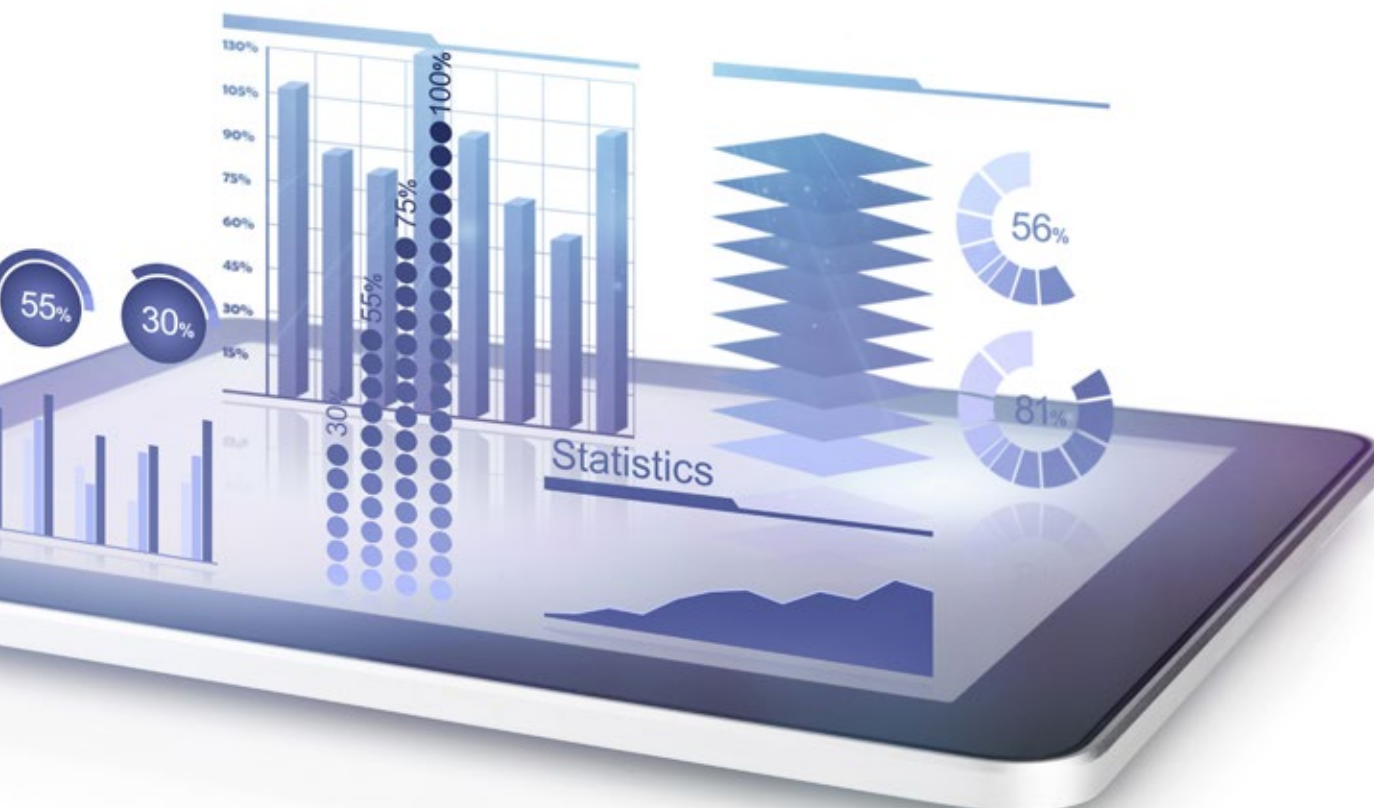
A Robo-Advice Offering:
Keys to Success

In our view, robo-advice will complement, rather than displace, financial advisors. Some large firms will build their own offerings, while other large and mid-sized firms might buy independent robo-advisory firms. Smaller firms may offer "white label" services or incorporate a branded industry solution.

Firms have been looking for years at how to handle the different needs of different types of clients. The robo-advice model is ideal for clients with simple needs, or for smaller "entry level" accounts. The low fee structure for their services will push traditional advisors to re-examine and sharpen their fee structure.

To succeed with a robo-advice product, however, firms will need to understand the keys to success in attracting and keeping investors. In particular, they have to make important decisions about how to introduce such offerings to their own clients. Do they unveil a standalone product, or do they attempt to provide robo-advice next to other, more traditional offerings? What distribution channels should be used to introduce the new capabilities?

We see three main concerns for wealth management firms to address today:

1. Getting the offering right.

In addition to choosing the right technology strategy, wealth management firms should be thinking about what kind of experience they want to offer the prospective investor via robo-advice services. What level of support should be offered? What are the qualifications (in terms of sophistication, investment goals, assets to manage and other factors) that should determine who is directed to robo-advice services and who should have access to a financial advisor?

Pricing is another important consideration. Is the "right" price for investors free (as in the Charles Schwab model) or in the 25 to 35 basis points range (as other firms have established)? Should the offering be seen as a standalone product, as a complement to other wealth management services, or as an entry level product through which investors will "graduate" to traditional wealth management services as their assets grow?

Finally, although investment performance is a secondary consideration for now, it may grow in importance as firms establish a track record over a number of years. Matching major market indices may represent an acceptable level of performance at present, but that may not be the case in the future as automated models become more sophisticated.

2. Developing an effective distribution strategy.

Part of the excitement surrounding robo-advice services is their appeal to non-traditional clients, especially younger clients with fewer assets to manage. Robo-advice fills a void for millennials, allowing them to start building wealth and planning for the future. This is particularly important at time when other "entry level" investment vehicles such as savings accounts and certificates of deposit no longer deliver meaningful investment returns. The new offerings may, therefore, attract assets that are not currently in-house at wealth management firms.

An important consideration for firms is whether to use the firm's own, established brand for a robo-advice offering, or to roll out the offering under a new brand.

3. Getting the advisor force on board.

Firms with an advisor force already in place should be thinking about how to mesh their capabilities with those of robo-advice. For example, if the investor has questions and wants to talk to a "real person", should that person be a financial advisor or a dedicated member of the robo-advice product team? At present, robo-advice has only a minimal ability to explain complex topics, and no ability at all to follow up with questions and make recommendations based on the answers. They can, however, be positioned with the sales force as an effective means of serving smaller accounts and freeing up financial advisors' time to concentrate on bigger opportunities.

As seen in Figure 3, wealth management firms have a range of options for introducing robo-advice capabilities.

Figure 3. Options for introducing robo-advice capabilities

	Free standing robo advice [direct channel]	Product offering through call center based advisor channel	Product "distributed" through full-service advisors	Toolset embedded in the platform supporting a broad range of advised products
Benefits	Build a distinct brand and service offering for digital-centric millennials May mitigate pricing impact with existing client base Feeder system for new accounts	Offering is aligned with channel's target wealth tier Contains pricing impact on other channels Sandbox for developing capabilities Growth opportunity for digital-centric millennials Cost effective service model	Provides robo capabilities to advisors whose clients ask for it Provides greatest scale and leverage for the offering	Seamlessly enhances traditional advisor platform Leverage capabilities to benefit advisors and clients
Considerations	Could be viewed as competition by existing advisor force Limits synergy with existing core wealth business	Revamp of call-center advisor channel—repositioning for growth Limits near-term synergy with full service advisor channels	Large, complex deployment to distributed advisor force Broader potential impact on pricing	Large, complex deployment Change management/ cultural disruption Significant platform dependencies

Source: Accenture Research

The Potential Industry Impact of Robo-Advice

Robo-advice has already had a significant impact on the wealth management industry. Several wealth managers have already launched a robo-advice option; others have an option in development or are reviewing strategic alternatives.

We believe the most important effects on the industry, however, will come from capabilities which have not yet been released to the market, but which are logical extensions of robo-advice capabilities. In addition to cognitive computing, these include the addition of investments other than ETFs, such as equities, fixed income and, eventually, alternative investments such as hedge funds and real estate.

The growth of robo-advice matches up with industry trends indicating that investors are seeking more collaboration and integration with their advisors. Rather than simply being told how their money is invested and how it is performing, robo-advice gives investors a way to interact with their advisors, increasing their engagement.

Next Steps for Wealth Managers

Wealth management firms evaluating their options related to robo-advice should evaluate five key considerations:

1 Whether the needed technology and solutions will be developed in-house, through a partnership, or via the acquisition of an existing provider.

2 How the robo-advice will be positioned—as a stand-alone offering, as part of a full-service financial advisory package, or as a hybrid of the two.

3 Whether the firm has the analytics and market segmentation in place to identify the most likely robo-advice customers and to obtain the information and insights needed to work effectively with them.

4 How the product will deliver an intuitive and satisfying customer experience. This is typically achieved through an iterative process involving prototypes, client labs and rapid revisions and enhancements.

5 How the offering will roll out via internal and external marketing initiatives and through change management programs undertaken with the sales force.

Conclusion

Despite the quick uptake of robo-advice services among wealth management firms and individual investors, their share of assets under management is quite small. Robo-advice will not suit every investor.

We believe that robo-advice will, however, ultimately have an outsized impact on the wealth management business. The capabilities will, for example, accelerate the process of fee compression which is already affecting the industry. The lower price for robo-advice services is likely to put pressure on the market price for many services. Wealth management firms need to keep a close eye on operating costs and on ways to automate transactions and processes that are currently performed manually.

Robo-advice will also give wealth management firms access to a large new market of millennials who are interested in accumulating wealth, but have had only limited options in terms of investment management. As these individuals mature and build assets (through their own efforts and through inheritance from their boomer parents and grandparents) they can represent a significant growth opportunity for wealth management firms.

Finally, advances in technology—particularly in cognitive computing and "smart machines" capable of complex reasoning and interaction with humans—will transform the investing landscape in potentially disruptive ways. For wealth management firms, robo-advice services can be a bet on the future—a way to get customers and financial advisors acclimated to working with machines that can enhance and extend human performance. The time to think about and prepare for it is now.

[1] http://www.wsj.com/articles/putting-robo-advisers-to-the-test-1429887456
[2] https://www.accenture.com/us-en/insight-generation-d-europe-investor-survey-wealth-management

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