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# Beyond Robo-Advisors: Using Technology to Power New Methods of Client Advice and Interaction



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## EXECUTIVE SUMMARY

For the past few years, robo-advisors have been growing in popularity as a wealth advisory service. New investors, especially millennials, are attracted by low minimums, low fees and the promise of solid returns. Using simple computer algorithms for setting asset allocations based on age and risk tolerance, robo-advisors automate the rebalancing and tax-loss harvesting process to keep an investor's portfolio on track.

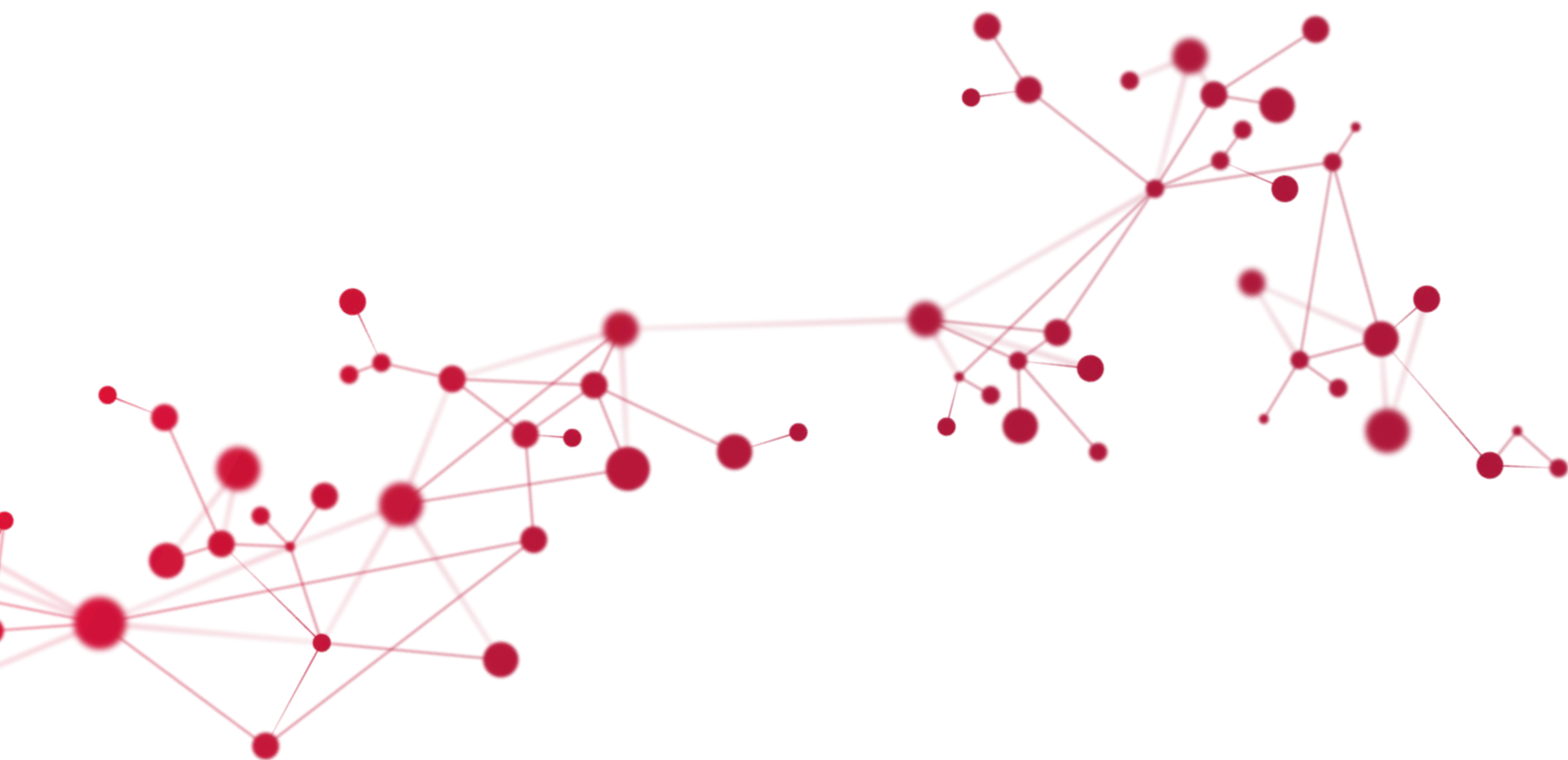
While this type of service generated significant asset growth in the beginning, that growth has leveled off today. Although the use of robo-advisors continues, the service is being replaced by a broader trend, with financial advisors using computer programs to assist them in offering investment advice and overseeing client accounts.

There remains a relatively small segment of investors for whom robo-advice can meet most of their needs. However, the vast majority of investors with broader needs—and the advisors that serve them—are deriving significant benefits from this new digital advisory trend—the delivery of digital advice for a digital world, but with humans firmly at the helm.

In fact, the popularity of robo-advisors, and the lessons learned from their implementation, point to a new way advisors, online brokerages and other financial institutions can do business. These advice and investment providers can build or acquire a platform offering far more than simply digital advice. It can instead power an environment where a personalized investment program is successfully delivered through advisor, call center and digital channels, depending on the most effective channel, as well as client preference.

Call it an automated advice platform—a suite of software that can guide investment decisions and much more, from tax-loss harvesting and rebalancing to data mining and predictive analytics, helping the firm and advisor interact with the client through the most appropriate channel. Such a system drives efficiencies and cost savings, as well as an enhanced customer experience.

There are many factors and options that firms should consider when planning and deploying these systems. In this paper, we look at what is driving the technology behind automated advice platforms, and what firms need to know as they consider the technology.



## THE ADVENT OF AUTOMATED ADVICE

Before the digitally powered information age, the financial advisory industry involved far more manual activity and was more limited, at least by today's standards, in what it could offer and to whom.

Advice delivery was inefficient and slow, as well as exclusive (mostly limited to affluent or wealthy investors). It also could be inconsistent; clients would often hear different advice from an assigned advisor than they would from someone based in a call center. Finally, it was easy for financial planning to become disconnected from the actual implementation of the investment advice.

These shortcomings became painfully clear when technology increased speed and consumers demanded increased transparency and instant information delivered at their convenience. Many financial advisors, working with ageing and inadequate software, could not meet those demands.

### Robo-advisors arrive

Starting in 2010, financial technology firms began offering robo-advisors—algorithm-based computer programs that capture a client's basic details, determine an asset allocation based on age, time horizon and risk tolerance, offer a canned product selection based on the asset allocation, and then automate the rebalancing, tax harvesting, billing and reporting functions. Robo-advisors could eliminate behavioral biases and handle routine account maintenance without human interaction while significantly saving costs—so the pitch went. This was all based on decades old investment theory, with proven results to back up the digital first low fee formula.

The idea made sense to many, and robo-advisors quickly gained market traction, overseeing \$19 billion by the end of 2014, with forecasts of hitting \$2 trillion in assets by 2020. Some of the early robo-advisors came from pure play robo firms like Betterment and Wealthfront. Well-established product manufacturers like BlackRock, Vanguard and Schwab got into the space, too. Traditional advisory firms, as well as independent broker-dealers and custodians, adopted automated investment technologies, looking to attract younger clients (almost 40% of millennials are interested in robo-advice) and smaller accounts, as well as keep up with their peers. Still today, we see niche-oriented robo-firms like WorthFM coming to market, as other firms add artificial intelligence to their platforms.

### Robo-advisors: Here to stay or a passing fad?

However, client acquisition for robo-advisors is costly, and the lower fees that consumers expect for a robo-advisory solution make the economics difficult. Growth rates have dropped, and average revenue per robo-advisor client has been declining, which does not bode well for their long-term outlook.

Part of the issue is the simplicity of the investment portfolio. If the portfolio is just an allocation of various passive ETFs, then it is cheaper to purchase through a self-directed account. This can be accomplished with relative ease for a fraction of robo-advisory fees.

The robo-advisor also leaves no choice for the investor—once the asset allocation is determined, you cannot switch investments. Other criticisms of pure robo-advisors are that they have yet to operate during an extended bear market or recession (staying invested is central to the investing theory), and it is not clear how they will handle events like post-retirement drawdowns. And, while many younger investors are fine with purely digital financial advice, many others are not. Also, many aspects of the financial advice relationship continue to require human intervention, like estate planning and tax strategies.

**By investing in an automated advisory platform, firms can build and power an omni-channel environment—one where customized advice is successfully delivered through advisor, call center and digital models.**

Many of the concepts that drove the adoption of robo-advisors in the first place remain sound, and firms and advisors now have a prime opportunity to apply robo-advisory technology more broadly across their company and practices. Indeed, robo-advisory solutions will continue to mature to address these shortcomings, putting ongoing pressure on traditional advisory firms. By investing in an automated advisory platform, firms can build and power an omni-channel environment—one where customized advice is successfully delivered through advisor, call center and digital models.



## THE POTENTIAL OF AUTOMATED ADVISORY WORKFLOW TOOLS

Even in this hyper-connected information age, the vast majority of investors, regardless of account size, still need professional advice. The financial advisory firms that can best deliver this advice—in the amount, frequency and format that the client wants, and in a way that is still profitable to the firm—will be the ones that survive and thrive. There are a number of newer “disruptive” providers that are using innovative ways to deliver this professional advice, such as the exclusively online and call center-based advisory firm Personal Capital.

However, recent consumer research by CGI shows that more than two out of three consumers who are interested in more automated advice would prefer to get it from their current provider based primarily on reasons of trust, expectation of value and convenience. This puts those traditional advisory firms that manage to successfully evolve their capabilities and to fully understand their current and prospective clients at a distinct advantage.

Firms need to be able to serve clients in the way they want. Whether serving a millennial who prefers advice via SMS, a baby boomer with a significant investment account and questions about taxes, education funding and estate planning, or a middle-aged, mid-career investor who is able to self-direct most account functions with an occasional assist from a call center representative, financial institutions need to figure out what the client wants in terms of advice delivery, and then they need to deliver on that. Technology is crucial to deliver the right customer experience, meeting the customer’s needs efficiently and consistently.

Many firms understand this, as evidenced by the numerous acquisitions of robo-advisory firms that large asset managers have made over the past few years (e.g., BlackRock and FutureAdvisor, John Hancock and Guide Financial, and Invesco and Jemstep), as well as companies that have built their own robo-advisory solutions, like Schwab and Vanguard.

But, the real innovators are those that will push their technology beyond robo-advisory. With the right planning, they can deploy a comprehensive automated advice platform. Beyond just providing investment advice, this kind of platform can work alongside advisors and call center reps to provide complete and holistic financial planning and investing for a firm’s entire client base.

### Benefits of an automated advisory platform

Firms that make an investment in the hardware and software that allow them to run an automated platform with omni-channel advice stand to reap enormous benefits. Perhaps the most obvious is client satisfaction; clients who are receiving advice through their preferred channel and at their preferred frequency are much more likely to be satisfied with the service they are receiving and, thus, are more likely to stay with the firm and advisor. An automated advisory platform’s first task is to identify client needs and vector those clients into the appropriate advice delivery channel. But, the platform can go much deeper than that. By taking into account a client’s demographic profile, risk tolerance, investment preferences and other factors, the advisor and the algorithm can work together to design, implement and maintain the portfolio.

Advisors also can use data mining to help them understand a client’s overall assets and liabilities, far more accurately than before. Armed with that data, the advisor and the software can work to optimize the portfolio through targeted portfolio construction and advanced risk management techniques.

The more advanced platforms with artificial intelligence can analyze a client’s behavioral profile and predict life events and potential attrition, then suggest ways for the advisor to handle such events. The platform may even be able to identify potential areas for new product development based on client needs and activities.

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## Increasing cost efficiencies

There are, of course, upfront costs to add both hardware and software, but automated advisory platforms allow firms and advisors to be significantly more cost-efficient in their advice delivery and execution, helping maintain profits even if fee income declines. These platforms also allow the firm and advisor to scale up operations and serve more clients of every size and type.

Beyond robo-advisory, technology can be a huge support when it comes to routine account activities, many of which are never seen by clients. Financial firms can set up robotic process automation (RPA) systems—computer programs built on artificial intelligence that can automatically process transactions and perform other activities that previously were handled by employees of the firm or an outsourced provider.

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Technology aids transparency, too; when everything is running through the automated advisory platform, it is easy to report to the client exactly what is happening, and why. Similarly, periodic reporting—quarterly, yearly or as often as the client wants—can be easily automated as well.

Finally, regardless of the channel, the best automated platforms will record each interaction, as well as any client feedback, both for regulatory purposes and to enhance future interactions.

## Best interests: The Department of Labor's new fiduciary rule

Regulations are about to get stricter, particularly when it comes to advice on IRAs and other retirement accounts. The Department of Labor's new fiduciary rule—released in April 2016 with provisions beginning in early 2017—requires all advisors of retirement accounts to provide investment advice that is in the client's best interest. It also places stringent rules on advisors getting paid through commission.

With current advisor practices, the new rule will not likely make it profitable for advisors to service smaller accounts. However, technology—particularly software leveraging robo-advisor approaches—can enable firms to service these smaller accounts while still meeting the fiduciary rule's no-commission and best-interest mandates. Technology, in short, will allow firms and advisors to provide best-interest advice to those smaller fee-based accounts while still turning a profit.

The fiduciary rule is broader than that, however, and technology will be crucial to meeting all of its precepts. Any advice that is given to a retirement client must be in the client's best interest, no matter how big or small the client and no matter what channel that advice is delivered through.

The right technology can make sure that takes place, ensuring an algorithm or an advisor does not recommend the wrong investment product, for example, and making sure that the advice given is consistent across all channels. Technology also will keep track of what advice is given, so that it is easy to prove to regulators that the advice and the execution of that advice were in the client's best interest.



## SELECTING AND IMPLEMENTING AN AUTOMATED ADVISORY PLATFORM

While the concept of a robo-advisor is useful, the current application of the technology does not go far enough. This creates an opportunity for forward-thinking advisors and financial institutions to expand the concept significantly and reap benefits, including cementing long-lasting and profitable client relationships.

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The best automated advisory platform will do far more than just offer investment product suggestions and rebalancing and tax-loss harvesting. Instead, the platform can evolve into a complete managed platform, with features like full household management through unified managed household accounts, advice on tax issues, and estate planning. The platform also must be integrated with client relationship management (CRM) applications, so that an advisor can get up-to-the-minute information on an account, regardless of that client's primary advice delivery channel. This also will ensure that all client interactions are recorded for regulatory purposes.

Some of these items can be handled digitally. Others will need call center input or even face-to-face meetings between the advisor and client. Pivoting between channels will not be a problem for the firm or advisor that has put in place the correct technology and fully understands each client's preferences.

### Six steps for delivering automated advisory

To build and deliver this vision of a robust, technology-enabled platform, it is essential that the platform be well thought out before any changes are made. While specific functions will differ depending on a firm's own preferences, capabilities, client roster and plans for growth, we have identified six major steps that any automated advisory platform must support.

**Step one – Client vectoring:** This crucial first step involves getting to know new clients, their assets and their investment goals, and then slotting them into the proper investment and servicing programs. Clients can be sifted into categories such as mass market, mass affluent and high net worth, and the platform can devise investment programs for each category (e.g., UMAs for the wealthy and wrap accounts for mass market investors) and based on how each client will likely prefer to be served. Yet, this evaluation must be nimble enough to account for individual preferences.

**Step two – Planning and product selection:** This is the stage that perhaps most resembles today's robo-advisor. Using information gathered through questionnaires and other client interactions, the algorithm recommends an asset allocation and underlying securities that are appropriate to each client. The difference is that the platform also can help educate the client on these options—via call center or online, for example—and also can make adjustments to the recommendations based on how complicated each client's portfolio and individual financial situation is.





**Step three – Implementation:** The program or the financial advisor then explains the rationale behind the proposed investment program and makes any adjustments based on client interaction. Once the client agrees, the investments can be automatically made using the proper investment vehicle—for example, the mass market investor may need a mutual fund or ETF, while the high net worth client’s investments may need to be in a separate account or held in a trust.

**Step four – Monitoring:** After the automated advisory platform makes an investment, the algorithms constantly track how that investment is performing. It compares the results against individualized benchmarks, with the appropriate action taken based on preset criteria and with actions either performed automatically by the system or with the intervention of the financial advisor. The action could be as simple as monitoring drift and rebalancing as needed. The action also could be more complex, such as tax-loss harvesting, transaction cost optimization, or flagging an issue for further action by the call center or advisor.

**Step five – Performance and servicing:** Here we see the full benefits of the omni-channel servicing model that an automated advisory platform supports. How investment reports, account statements, funding requests and other periodic client messages are best delivered depends on client preference and advisor commitments, as well as on the content of the communications themselves. Properly configured, the platform can automatically select the best channel to ensure each message is properly delivered and received.

**Step six – Event-driven reinvention:** Client situations continuously change (e.g., new job, inheritance, health complications, retirement). These life events may necessitate significant changes to the portfolio. Some of these changes can be handled automatically by the platform, but many will require the intervention of a human advisor. The platform and advisor, working in tandem, can come up with the best solution, such as a new investment product, shifting to a new service channel, or moving into a UMA or UMH. With an automated advice platform, this can all be done faster, more efficiently and at much lower cost than doing it with little or no technology.

## Considerations when selecting a platform and provider

Transforming an existing IT system can be complicated, expensive and risky, but this is more than offset by the many clear benefits of transitioning to an automated advisory approach. Questions to consider when looking to purchase and deploy an automated advice platform include the following:

- **What features does the platform offer?** As we have seen, there is a wide range of potential features a platform can offer. Firms will want to decide how thorough and complex they want their initial platform to be. They also will want to make sure it can be expanded to incorporate new products and services without too much trouble as the firm’s needs change.
- **How scalable is the platform?** Firms need to ensure that the platform can grow in terms of the number of advisors and clients it can support, as the firm’s book of business grows.
- **What are the integration challenges?** The platform also needs to work within a firm’s existing IT infrastructure, or the firm will need to upgrade its systems. Similarly, can the new platform integrate easily with a firm’s existing software and with the workflow that is already in place among its advisors, call center representatives and other professionals?
- **What other challenges need to be addressed?** Are there gaps in a firm’s existing data collection systems? Is the firm’s online security robust and up to date? What kind of upgrades or changes will be needed to advisors’ desktops and dashboards? What about the call center? Can the platform be merged seamlessly with the software to which call center representatives are accustomed, or will there be a steep learning curve?

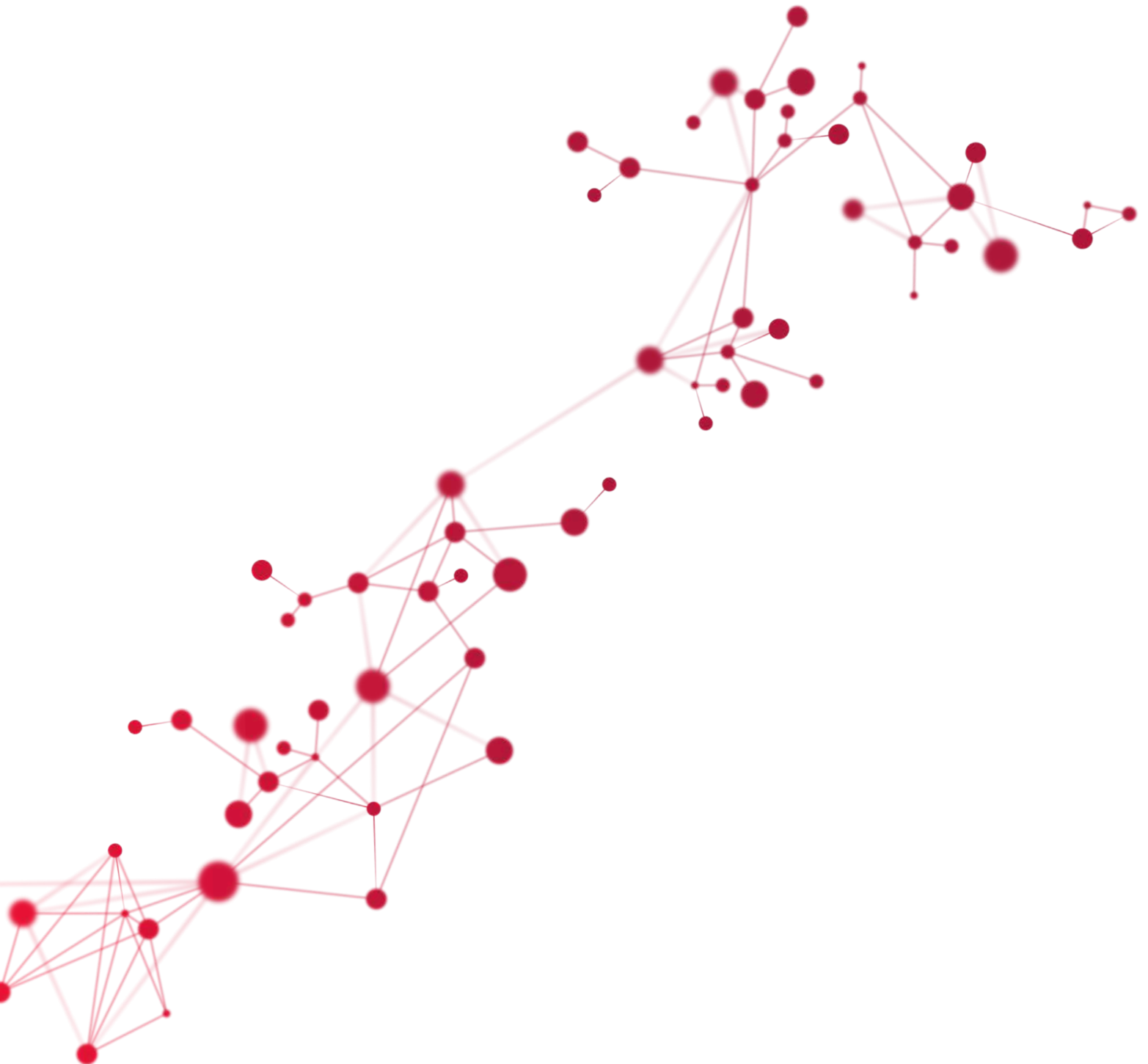




## CONCLUSION

It should not be a question of “if” but rather “when” a firm will deploy an automated advisory platform. The future of the financial advisory industry will lean heavily on technology, and those firms that lag behind are bound to miss out on the benefits to clients, advisors and the firm overall.

Leading firms will put in place platforms that take into account the needs of clients and advisors, ensuring that advisors gain a powerful tool that helps them serve their clients more effectively and efficiently. The robo-advisor trends in recent years gave rise to fears that advisors would be cast aside by technology. But, it is now clear that advisors are as important as ever. An automated advisory platform can augment advisors' expertise, ensuring that clients get the best advice—no matter what channel they prefer.



## About CGI

Founded in 1976, CGI is one of the largest IT and business process services providers in the world. We combine innovative services and solutions with a disciplined delivery approach that has resulted in an industry-leading track record of delivering 95% of projects on time and within budget. Our global reach, combined with our proximity model of serving clients from 400 locations worldwide, provides the scale and immediacy required to rapidly respond to client needs. Our business consulting, systems integration and managed services help clients leverage current investments while adopting technology and business strategies that achieve top and bottom line results. As a demonstration of our commitment, our client satisfaction score consistently measures 9 out of 10.

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