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Robo-advisers no threat to tech-adopting advisers

Technology will never replace advisers, but advisers who use technology will almost certainly replace those who don't.

On July 1 the retirement income covenant (RIC) came into force, requiring super trustees to develop a retirement income strategy for their members. It's something that the government is pinning its hopes on to improve financial outcomes for Australian retirees.

This leaves a large advice-affordability gap which could simply be filled by digital wealth solutions like robo-advice.

But there's a problem with this. History tells us that robo-advice has limitations, and while people are happy to use models and calculators to hypothesise, the vast majority still want to interact with a human prior to taking action. That's backed up by recently released *Investment Trends' 2022 Digital Wealth* report, which found digital wealth platforms were increasingly changing how they engaged with customers to remain relevant. Those that performed best, the study found, were platforms who were able to deliver "personalised experiences" across several channels and make you feel as though you are having a one-on-one conversation with a financial adviser.

Research also tells us that users of robo-advice generally use a human as well. The Million Dollar Round Table, a US-based group of financial professionals, published an analysis of robo-advisors' roles and found that scepticism toward independent robo-advisors was strong: 36% of professionals said they wanted their finances handled solely by people but just 8% said they wanted their finances handled solely by automated systems.

One important takeaway from the study was that "to mollify concerns about their own fallibility, human advisors must effectively incorporate technology into their practices - and effectively communicate the technologies they use to their clients."

The study also found that robo-advisors evoke stronger concerns about personal or financial security breaches, and impressions of the advantages are considerably less enthusiastic than the human advisor advantages. In other words we are generally more fearful of the potential mistakes of robo-advisers and less impressed by the supposed advantages.

With this body of evidence, the role of an adviser becomes clearer and further from extinction in markets like Australia where the industry has contracted. It is clear that technology is an enabler to more efficient and affordable human advice, rather than a replacement for it. All the algorithmic technology in the world isn't reading the emotion of the individual at the point of a major life event such as retirement.

Robo-advisers are also unable to consider that the silent partner in the room is terrified of the impending change, but the one pressing the keys is completely bullish.

Cost remains the major advantage for robo-advice and deterrent for human advice. The cost of advice simply reflects the cost of the component parts like salaries, office space, compliance and technology but adjustments at every level can help to improve efficiency. Raising the pay of salaried advisers will attract more/better talent and the move to remote is already putting downward pressure on office space, so the focus should be on the other two areas - compliance and technology.

Compliance is critical but also needs to be tempered on a risk versus reward basis - if regulation is geared at controlling the 2% of advisers who are doing the wrong thing, it will negatively impact the 98% who are doing the right thing. Technology goes hand in glove to solve this problem. Reducing the friction in compliance and making monitoring comprehensive and proactive through technology, rather than ad-hoc and retroactive through audits is a big step in the right direction. Particularly if the advisers are being paid a better salary.

Technology, particularly AI, should be used to interrogate data at scale to weed out problem advisers. It can achieve this by looking for patterns that aren't obvious to humans doing the monitoring manually. In short, rather than digitising the end-client experience, it's far more effective to digitise the compliance process.

Over the past five years the industry has changed immensely and mostly positively, yet the technology underpinning it has barely changed at all.

Licensees remain fixated on the production of a compliant SOA or ROA rather than the quality of the overall relationship with the client. This in turn drives adviser behaviour and technology investment and as a result, the perception of value from the end-investor is inextricably linked to the one or two interactions they have annually on this topic. Through this lens advice feels expensive.

Price is only an issue in the absence of value. Our learnings from the US market make this very clear. The system driving high performing firms is the CRM. Products like Practifi are heavily used by every team member every day - advice tools are widely used but on a transactional basis and are secondary whereas enterprise-grade CRMs are the core. Client experience, not compliance, dominates technology investment. Compliance is assumed and embedded in systems.

There will always be that 2% who will work around the controls, regardless of what they are. If client experience becomes the focus and the relationships evolve beyond the annual advice generation exercise, then the perception of value increases and pressure on costs goes down. With increased pay attracting more high-quality talent to the industry the joint problems of affordability and accessibility are eased. If we don't value these professions and we continue to increase the risk to operate in them, they'll continue to contract and supply/demand will fall further from balance.

Advice is and always will be, a human industry. Technology's job isn't to replace advisers, but to better enable them.