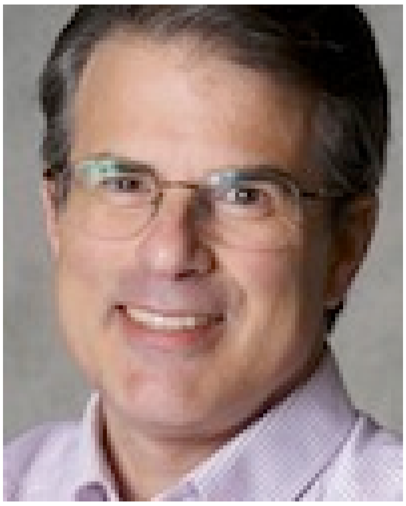
In New York, Hanging with Robos

By Kerry Pechter *Thu, Jun 25, 2015*

At the InVest financial technology conference in Manhattan last week, hundreds of robo-advisors, vulture capitalists, and Wall Street firms gathered to contemplate a prosperous and collaborative future.



To glimpse of the future, I dropped by the InVest conference on “Innovations in investing, savings & advice” at the New York Hilton last week. It was a gathering of robo-advice entrepreneurs, the vulture capitalists who back them, and agile Wall Street firms who, as one speaker put it, are determined not to be the “next Kodak.”

In other words, this was robo central, aka fintech central, aka digital advisory channel central. Think “TED Talk,” and you’ll have a sense of the tone of the presentations. It wasn’t the biggest robo-advice conference so far this year—Joel Bruckenstein’s T3 conference in Dallas was bigger—but Manhattan is the better location.

And InVest wasn’t just about tech. These disrupters believe they own *the future*. They trust, with a confidence bordering on the brash, in their own brilliance. They know that the path to the wallets of the Millennial generation runs through them.

The most interesting thing I learned at InVest was that the robo-advisors and the Department of Labor are in synch, if not in cahoots. I was told that the DOL waited until this year to unveil its new anti-conflicts-of-interest proposal because the robo-advice has just recently matured to the point of offering a legitimate alternative to traditional advice models.

That may or may not be true, but the robos clearly like what the DOL is doing, and vice-versa (as evidenced by the Secretary of Labor’s positive reference to Wealthfront during a House subcommittee hearing last week). Both aim to make retirement advice less expensive through automation, more transparent through open-architecture, and more objective through access to comparative data. The Millennials feel empowered by the Internet. As one presenter said, Millennials expect to “tap twice for further information” in every sphere of their lives.

The moves by Fidelity, Vanguard, Schwab and Northwestern Mutual to build or buy or strengthen their digital advisory channel capabilities suggest that robo-advisors will complement, not replace, human advisers, and lead to a hybrid advice model that combines web portals and call centers. This was a recurring theme at the conference.

“A lot of vested players will want this capability,” said Sebastian Dovey, co-founder of Scorpio Partnership, “a global market research and strategy consultancy to the global wealth industry” based in London. “They’ll do hybrid solutions in order to avoid ceding market share to other institutions.”

In this scenario, fee-based advisers may not lose customers, but they will lose pricing power. “There won’t be a landslide of dollars coming out of the financial advisor world,” Dovey said. “But the price shift will be significant.” Competition from robo-advisors will drive registered investment adviser fees down by “30 to 35%,” he said.

One of the answers that I had hoped to find at the InVest conference involved retirement income: Can robo-advisors do it? It’s relatively easy to automate risk-based asset allocations and choose mutual funds. But can a robot design a custom income plan for retirees, given the huge differences in their circumstances?

I saw only one presentation that described a robo-solution for retirement income. NextCapital, a provider of advice to defined contribution plan participants, is partnering with Russell Investments, wholesale fund company. Together, they will distribute the Russell Adaptive Retirement Accounts custom TDF glide path technology to Next Capital’s DC customers (and, later this year, to the retail market).

Russell Adaptive Retirement Accounts doesn’t exactly produce a retirement income plan. As Russell’s Jeff Eng described it, Russell uses individual participant data—age, salary, current savings rate—to establish a retirement income goal and, from that, works backwards to derive a retirement savings goal. Having established the goal, the software can recommend a different asset allocation, different investments or a higher deferral rate and then calculate a personal funded ratio.

Is that the same as showing a client how to turn savings into income, by creating a custom combination of specific insurance and investment products that will mitigate the unique market, inflation, health and longevity risks that retirees face? I wasn’t convinced.

Another misconception from which robo-advisers may suffer is the idea that the main function of most investment advisers is to give investment advice. Most registered reps and insurance agents get paid to distribute investments and insurance products—i.e., gather liabilities—for mutual fund firms and insurance companies.

Will the robo-advisers (or hybrids thereof) be able to gather liabilities—an arguably much more difficult and important societal function, in the grand scheme of things, than calculating asset allocations and recommending funds for individual investors? If you know the answer, please send it to me.