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Robo-advisors aren’t science fiction: Celent

By Editorial Staff *Thu, Sep 11, 2014*

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A new report, *Automating Advice: How Online Firms are Disrupting the Market for Online Advice*, by a senior analyst at Celent, warns traditional advice providers that hungry robo-advisers will eat their lunches unless they take aggressive action—soon.

“Traditional providers of financial advice must change the way they do business or face radical disruption,” Celent said in a release about the report. According to Celent, traditional companies will either have to adapt or be overwhelmed by a trend that’s fed by a smorgasbord of data and a generation of Millennials—“digital natives”—who live on a data diet. The rise of passive investing, especially through ETFs, and the widening availability of high-speed broadband access have also been key drivers.

The report challenges the notion that investors will continue to want or need face-to-face contact with the person managing their money. That may be true for today’s middle-aged and elderly clients, but it not for future investors. Working across the proverbial kitchen table, even with an open laptop, won’t be enough. It also challenges the idea that only robo-advice will only appeal to small investors.

The potential threat posed to traditional advisors by the robots has been a major teething toy of the business press for much of this year. That question may be irrelevant: The simple passage of time—and the inevitable passing of Boomer investors and a whole generation of older, white, male advisers—will mean that robo-advisors won’t need to defeat the status quo, they just have to let it to fade naturally. But the Celent report asserts that significant change will happen within just five years or so, not in a generation.

The new wave of providers named in the report includes Advicent, Betterment, Garrett Advisors, Jemstep, Learnvest, Mint, MoneyDesktop, Motif, Personal Capital, PIETech (MoneyGuidePro), Wealthfront, Wisebanyan, and Yodlee. They vary in whether they handle personal budgeting, account data aggregation, savings recommendations, asset allocation models, or longer-term planning. There’s also FutureAdvisor in San Francisco and HelloWallet, which Morningstar bought in May for more than $50 million.

The report focuses on retail investors; it doesn’t mention Vanguard or Fidelity, which have a large do-it-yourself investor base, considerable experience working with institutional and rollover IRA clients via call centers and the Internet, and trusted brand names. Nor does Celent look at online advice in the 401(k) space, where online advice providers like Financial Engines, Guided Choice, Morningstar and startup Kivalia operate.

Only another financial crisis or a security breach that scares investors away from the digital channel will stop the trend, Celent said, calling online advice "an existential threat."

"Over the last five years, online firms have gained significant market traction, most notably in the domain of investments (where the fragmentation of traditional delivery models and the adoption of passive investing strategies have created fertile ground for disruption), but also in the areas of personal financial management (PFM) and financial planning," the Celent release said.

Traditional firms might get temporary relief by moving upmarket and serving wealthier clients, Celent said, but that strategy will only buy a short. The digital game is pervasive and they will eventually have to become experts at it.

"The ubiquity of video and remote channels means that many real life advisors rarely see their clients in person, and in this sense they demonstrate little competitive differentiation from their online-only and hybrid competitors," the report said.

"Traditional advisors and the financial institutions that employ them must put aside legacy practices to deliver digitized advice and, ultimately, digital relationships. In short, they need to take a page out the book being written by the automated providers."

The 17-page report contains three figures, three tables and concludes with recommendations for real life advisors to address the challenges posed by the automated advice providers.