Robos Take Manhattan

By Kerry Pechter *Wed, Jun 22, 2016*

In New York last week for InVest, a fin-tech conference, I learned that advisors of the future won't be robots. They will be less sexy: Phone reps who help Millennials "navigate the site and provide some advice along the way."

The brains of any financial advisors who attended the second annual IN|VEST conference on financial technology in midtown Manhattan last week probably seethed with one of these emotions: a) fear of redundancy, b) excitement at the new drudgery-reducing software, or c) relief that they will retire before robos obliterate their happy world.

Not that the conference/tradeshow, arranged by **SourceMedia** and sponsored by an army of tech firms (some with endearingly ominous names like **Advizr**), was aimed at individual advisors. It seemed pointed rather at broker-dealers and other firms that employ advisors, and who would like to raise productivity by serving more investors and managing more money with fewer human advisors.

Speakers at the conference bore the following un-shocking news: The world of financial advice (thanks to technology, regulation and the rise of web-weaned Millennials) is rapidly converging on a *hybrid* model. In the future, “advice” (whatever that means) will be neither “fully-delegated” or entirely “self-directed.”

Instead, a hybrid of human and digital (i.e., self-service) help will emerge. (The mantra, “high-tech, high-touch,” has been retrieved from the 1980s attic and put back in service.) According to consulting firm **A.T. Kearney**, 90% of 35-to-54-year-olds would gladly go to this “digital plus” model, especially if it saves them 25 to 50 basis points a year.

A little advice with that navigation

What does this mean for individual advisors? For high-end independent advisors, it may mean converting their websites into “client-facing portals” and leveraging new research tools that mine the growing mountain of client data for sophisticated marketing opportunities. It will require new investment, but it should raise productivity.

But the job descriptions of employee-advisors—those licensed folks who traditionally hold initial client meetings, gather information, meet again to present financial plans and perhaps a third time to obtain a wet signature—are likely to change. Millennials would rather deal with a licensed phone rep who will “help them navigate the site and give them some advice along the way," as A.T. Kearney's Bob Hedges put it.

That sounded a lot like the model that Fidelity, Vanguard and Charles Schwab have been perfecting since Y2K. For years, Vanguard investors have been able to noodle with their nest eggs online and then dial an 800-number if they get confused. Depending on the complexity or specificity of the clients' needs, they get suitably specialized and/or credentialed reps on the phone or on Skype. Indeed, it often occurs (to me) that the majority of the retail financial world is just now catching up to what the direct providers have been doing pretty well for almost 20 years.

'I don't find that creepy'

Although presenters Robert Stanich and others from IBM at the conference firmly denied that their firm's famous **Watson** artificial intelligence technology will ever produce a true robot-advisor (perhaps as savvy as Scarlett Johansson's sultry portrayal of Apple's Siri in the 2013 sci-fi movie *Her*), IBM's luncheon presentation suggested that Watson is fast approaching the ability to do much of an advisor's thinking for him or her.

Already, Watson can create 52-point personality evaluations of an advisor's clients and detect when a client is unhappy and likely to jump to a competitor. "We can predict who will leave an advisor within 30 days with 94% accuracy," said Stanich, IBM's Global Wealth Management Offering Manager. He holds an MBA in finance from NYU's Stern School.

Watson can quickly sift through data from the firm's own client-relationship management (CRM) systems, as well as from comments on social media and credit transactions in ways that enable advisory firms to segment clients in new ways, design highly-specific micro-marketing campaigns and detect the occurrence of life events that merit an out-call by the advisor.

Stanich himself has been the subject of such tools. He told a story about tweeting to friends that he was about to surprise his son with a trip to Universal Studios in Orlando. He soon received an email from Universal Studios asking to use his tweet in its publicity. "I don't find that creepy," he told the IN|VEST audience.

There are few limitations to Watson can do, apparently. Its personality-analysis capability can help broker-dealers match the right advisor with the right client. It can tell companies which managers to keep and which to let go after an acquisition. It can scan essays by medical school applicants to identify those likeliest to make the school proud after graduation. It can pore through tens of thousands of articles in law journals to find the perfect precedent. “You’ll see vaporization of some roles” in the pursuit of higher productivity, Stanich conceded.

In 2018, Millennials pass Boomers in spending

During the conference, the word “advice” was probably uttered more than a million times. But no one bothered to define “advice.” As an example of valuable advice, several people referred to the reassurances that advisors classically give to panicky clients during market turndowns, thus preventing clients from selling depressed assets. But is that a core competency? And is it billable?

In the robo-world, advice seems to be synonymous with asset allocation recommendations and services such as automatic rebalancing and tax-loss harvesting. But those are services that, when performed by algorithms, don’t necessarily rise to the definition of “advice.” Before April 2016, “advice” often meant recommendations to buy a product. Even though a reasonable person could (and perhaps should) argue that products are in fact crystallized advice, the Department of Labor’s fiduciary rule is aimed at separating products from advice.

“Advice” may need to be evolve into something more concrete before most people will pay for it in the absence of a product sale. Good advice—e.g., save more, don’t use revolving credit, pay off your house before you retire, invest in low-cost index funds, follow your dreams, keep jumper cables in the trunk of your car—tends to be abundant and cheap. If generic advice becomes free, and electronic services (or self-services) keep getting cheaper, how does fintech raise profitability? From layoffs?

One final note: There was little sign at the IN|VEST conference that the robo-advisors have cracked the retirement income planning code. Other than Manish Malhotra of **Income Discovery**, no one seemed mobilized for decumulation. A possible reason: the attention of financial technologists has shifted to Millennials, whose retirements are a distant abstraction. Millennials are the new Boomers. As one presenter noted, sometime in 2018 Millennials will surpass Baby Boomers in generational spending power, with $3.39 trillion a year. Sic transit gloria mundi.

© 2016 RIJ Publishing LLC. All rights reserved.