THE MODERN FACE OF ADVICE

HUB24 and CoreData

In a world where technology is reshaping the way we live, it was always a question of when, not if, digital innovation would change the way consumers manage their money and their wealth. From the advent of online share trading in the mid-1990s, to the launch of so-called "robo advice" by industry heavyweights Goldman Sachs and JP Morgan in 2017, the financial advice industry is rapidly evolving – often in ways many never anticipated.

However, it is not a case of advisers being replaced by algorithms. In a quintessentially human-facing industry, technology can improve outcomes for both clients and financial advice practices. What it cannot do is engage in real conversations about client's lives, their health, their family and, of course, their hopes and aspirations.

The modern face of financial advice is an integrated mix of technology and the personal touch that only a human adviser can bring to the table. The challenge for advisers is to find the blend that works best for their clients and their practice.

In this paper, we interviewed financial advisers to discover how technology, including robo-advice, is transforming the financial planning industry and why the personal touch remains more relevant today, even in the midst of a digital revolution.

A suite of technology-based tools

From a practice management perspective, the technology used in advice practices continues to mature, and the costs – including platform fees and management expense ratios – are declining to enhance bottom line results.

Along with the scope to streamline an adviser's business, technology is also delivering back office efficiencies that allow advisers to better manage client interests.

"There are more and more tools becoming available to assist advisers," says Paul Trosti, Managing Partner of Godfrey Pembroke, Financial Advice Specialists. "There are cash flow tools, modelling tools, estate planning tools that weren't available, and these really enrich the adviser-to-client experience."

Among the wealth of digital tools being used are accounting platforms such as Xero, cashflow platforms like MoneySoft, estate planning vehicles such as ViewLegal, accounting services like Beany. With the right technology in place, advisers can provide tailored rather than generic data to clients, and as Trosti explains, this adds up to, "richer information, so the advice can be more personalised and more tailored to the client experience and what they're looking for from an adviser."

"With the cashflow tools we can see the ins and outs for their personal household that help us measure their progress towards their plan, that's being updated daily," Trosti says. "When we're meeting with them, we're not asking them how the last quarter went in terms of income and expenses; we know because we have it on our system."

Chris Bolger, Managing Director of Acute Wealth Management, says while tools such as MYOB exist for small to medium enterprises to manage their cash flow and budgeting, to date there's been little available in the way of personal financial management tools for clients.

"We're looking at My Prosperity, which provides individual financial management," he says. "So if you've got bank accounts with four different banks – mortgages, insurances, super – that feed is securely allocated and consolidated into one platform that is white labelled to our business. It will be a centralised spot where original documents for estate planning, the latest insurance policies are accessible and allows us to focus on the pointy end of things for clients."

The quote

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The value of real time, customised information

One of the key advantages digital tools provide is the ability to deliver information in real time, which in turn delivers greater value to the client. Simone Du Chesne of Equilibrium Wealth uses a range of technology in her business, including managed portfolios, modelling tools and Xplan. She says whereas in the past a client had to wait 24 to 48 hours for a response, it is now instantaneous – meaning advisers have more time to spend in front of clients.

"That's a wonderful benefit for everyone involved," she says.

"From a financial adviser's perspective, it really does free up time for the adviser to spend more quality time with their client, understanding what the client's needs are and how they are feeling about their investments."

Among other things, faster decision making improves opportunities to grow wealth by taking advantage of favourable asset market movements as and when they occur.

"Technology means more efficient management of client portfolios," says Greg Ginn, Principal of Bright Wealth, who uses managed portfolios in his business.

"If there was a decision made to sell out of gold and I was having to do that manually, I'd have to contact the client verbally, then in writing, and say this is the change we want to make. Before I make the change, I'd have to prepare an advice document. So, by the time all that's happened several weeks have passed and we may have completely missed the boat in terms of the pricing we wanted to sell gold at."

Digital innovations can also be a valuable medium for client education. Bolger of Acute Wealth Management says that in the past client engagement tools were limited – especially those that could produce client-friendly financial modelling.

"We joined GPS Wealth three years ago, and their Game of Money/Pathway to Wealth modelling tool is a good way of explaining simple financial planning concepts to clients so they can understand what we do," he says.

Just as importantly, the next generation of advice clients – the so-called Gen Y demographic – have warmly embraced digital innovation in their personal finances, in the same way they have in other aspects of their lives. Considered more tech savvy, and possibly more inclined to be deterred by the cost of financial advice over other life choices, Millennials are likely to lead the charge to adopt digital advice, and firms that invest in technology appealing to this demographic are making an investment in the future.

Bolger says technology can improve the information flow from adviser to client, helping drive engagement and assisting advisers with client education.

"We're big on educating clients, and using technology to pass on information has been key to educating (clients) but also identifying opportunities for clients to help them," he says.

Given the client-side benefits of leveraging technology in the advice process, does this mean "robo-advice" is the future of financial planning?

The role of empathy and emotional engagement in building trust

Robo-advice, the use of technology to build and manage automated, algorithm-driven client portfolios, is in its infancy in Australia. However, it is developing an increasing presence in a bid to tap into the estimated $2 trillion worth of unadvised savings currently held by Australians.

Since its arrival on the scene, there has been debate in the media over whether robo technology poses a threat to adviser businesses and the traditional face-to-face advice channel.

While awareness remains low among Australian consumers, the publication of guidelines (RG 255 Providing digital financial product advice to retail clients) on issues unique to digital advice by the Australian Securities and Investments Commission (ASIC) last year suggests it's here to stay.

One of the primary advantages advisers identify that they hold over robo-advice is the ability to build deep, personal and trusted connections with their clients.

Du Chesne of Equilibrium Wealth feels passionately that a person's financial wellbeing is better served by a face-to-face conversation.

"I would argue that an emotional connection is personal," she says.

"It's very hard to be emotionally connected to an email or a faceless person or a voice over the telephone because you're limited in your ability to read your clients' cues, their body language. Are they shrinking back in their seat? Are their eyes rolling? Are they leaning forward in an engaged manner? You don't have that ability if you're not face to face with them."

Ginn confirms this view, citing an example whereby he has been dealing with a client exclusively over the phone and has found it challenging for this very reason.

"One of the great things about meeting people face to face is you're able to see the full communication with them and so you get a better understanding of where they're at and what they like and don't like," he says. "I don't see how a computer can ever get that personal touch."

Bolger asserts that while computers are reliable when delivering outcomes that involve a formula, he questions their ability to deliver true holistic financial advice.

"I'm not sure of too many robo-advice tools that are able to deliver any empathy to a client, or to dig to a deeper understanding of what certain goals and scenarios mean to people," he says.

"That's why I feel people will continue to come back to having a person they can talk to and work out how to articulate things in a way that makes sense."

Another area where advisers have the upper hand is in their relative flexibility to navigate a client conversation into territory that the client themselves may not have even considered relevant when they stepped into the meeting.

"Being able to have clarity and efficiency with your adviser is irreplaceable," Du Chesne says. "We are real people and we can navigate the conversation very quickly – even if it moves from estate planning through to an investment bond for your child within five seconds. You can't do that on a computer."

Ginn says this is a key aspect of the advice process because when most clients come to an adviser, "they don't actually know what they want".

"One of the things we do is we take a lot of the emotion out of it," he says. "We understand what's making them tick so clients can make better decisions. I don't think a computer can do that."

Face-to-face advice also offers the benefit of a long-term commitment to building a trusted relationship.

Bolger says advisers can take an interest in the personal lives of clients over a lifetime, whereas "computers become transactional".

Ginn agrees: "Our relationship (with clients) is like any relationship. You get far better results out of it with time passing as you tend to get to know the person more and more."

Integrating technology into the advice offer

While robo-advice remains on the periphery of the industry in Australia, advisers are nonetheless eagerly harnessing digital technologies – both to deliver an improved client service and to streamline business processes. Indeed, such is the availability of digital tools, advisers now face the challenge of determining the tools most likely to add value to their business and their clients.

Several key factors are highly desirable in digital tools – the ability to personalise data, and provide interactive modelling that can be tailored for individual clients. Also on the wish list is a product with a secure login that is cost-effective for advisers, yet able to deliver a holistic view encompassing different areas of a client's wealth, including superannuation and insurances.

Bolger says, "I am always looking for new technology that improves the experience for clients. Using a car as an analogy, if you can make an improvement so the drive is smoother, the client is going to understand the value of having that improvement added, even if it costs money."

Managed portfolios (like those available on HUB24 Invest and HUB24 Super) can tick a lot of boxes in terms of desirable features for both advisers and clients, and they have become a valued part of the suite of tools used by the advisers we spoke to.

Client transparency was also attractive to Christian Ryan, Managing Director of Beulah Capital, who has been using managed portfolios in his business for about 10 years.

"The driver was to give clients transparency of their portfolios so they could understand and look through what they own," he says.

"It also allows us to act quickly (as per client instructions) and more efficiently in markets that are changing rapidly all the time."

Like many advisers, Du Chesne uses managed portfolios to record and manage money on behalf of clients because "this is an area where I can't add value". However, she points out, "Where we add value is the management of our clients' expectations and their relationship with their wealth."

The best of both worlds

In a competitive financial advice market, it is not a matter of technology replacing people but rather using digital tools to streamline a process, achieve cost efficiencies and more importantly, develop a unique business proposition. Du Chesne explains, "Technology in financial services is fantastic as it allows us to become much more caring and engaged advisers because all the technical work is provided using technology. What sets you apart (as an adviser) is how you deliver your services."

Bolger sums up what he sees as the future of advice, saying, "What I do is more psychology than computer algorithms and investment portfolios. Some clients like to just have the peace of mind that they've got somebody a phone call or an email away. Other clients take an interest in some of the finer details of investing or tax or super and use us as a sounding board for the information they've collected in their own research. It comes back to having that trusted sounding board to filter out noise and reassure people the information they've got is correct or accurate."

Beulah Capital's Ryan believes the financial planning industry is headed towards embracing a combination of humans and technology, whereby people supplement the value that the technology creates.

"When it comes to people's money, and particularly the more money you have, they want to talk to someone," he says. "That's where I think [robo-advice] models are moving towards – is having the ability to talk to someone, and then… that person using the technology to do whatever they're wanting to achieve."

However, he feels that Australia has a long way to go in developing technology solutions that aggregate information across all aspects of a client's personal financial affairs and allow advisers to use that information to enhance their service offer.

"The group that can, in the easiest manner, collect as much data about the client as possible in the least confronting way across all personal financial affairs and then allow advisers to use that information to provide them advice [will be the most successful]," he says.

"Whether that's done in an artificial intelligence way or just allowing advisers to see the whole picture on a client, in real time; that's where I think automation and technology can take over – and that's where I think it will change. It will be less about using technology to manage your money and more about 'how does data and the collection of data you have on yourself, pool into one dashboard for an adviser to assess in real time, and then be able to provide advice off the back of that to that client?'"

There's no doubt technology will continue to develop at a rapid pace. That's a good thing, though it does bring the challenge for advisers of filtering out what works best for each practice and the likely return on investment of embracing the numerous digital solutions available. However, technology is just one aspect of the value chain. Digital information can offer valuable support to advisers in building and managing client relationships and improving adviser and practice efficiency, but it will never replace the ability of a human adviser to forge personal connections with their clients.

The quote

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Client Case Study

Trust is a key ingredient

John and Jenny McCabe are living the retirement dream, able to travel and enjoy their life on the Sunshine Coast, and their three children (triplets!) are now independent adults. But their financial security hasn't happened by chance. Almost 20 years ago, in 1998, the couple met Rob McGregor, Co-founder and director, GPS Wealth, for financial advice on laying plans for the future. It was the start of a long and very successful relationship that has spanned the good years as well as some challenging times.

John, 64, explains, "When the three children were aged nine, I started to think about their future schooling. I needed a strategy for planning a secure financial future for ourselves and the children and for retirement."

During their first meeting, Rob explained how much the couple would need to retire comfortably in 2017. "We thought it was pie in the sky and not achievable," says John. "But by sticking to a long-term strategy and using Rob's sound advice, we slightly exceeded that figure when I retired – two years earlier than expected – in 2015".

However, it hasn't been all smooth sailing. In 2006 Jenny was diagnosed with breast cancer.

Previously, Rob had recommended a trauma insurance policy. John admits that with their (then) good health the couple didn't see this as a priority. "Fortunately," he notes, "We did take out that trauma cover and the following year we needed it for Jenny's breast cancer. Their relationship with Rob meant he sorted out the paperwork and insurance payout. "That gave us that peace of mind to focus on Jenny's health," John says.

John says his plan was always a long-term strategy and he believes "The key ingredient for us in making it successful was to trust in Rob."

These days John has recommended Rob to work colleagues and family members including his sister and his own children. He notes, "Rob's son and daughter are both (working) inside the business now so there will probably be a McGregor-McCabe connection for years to come. It could be the start of a very long-term relationship." FS