Will robots narrow the financial advice gap?

By Richard Rattue

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It is almost impossible to ignore robo-advice creeping in to the financial services space and financial services providers (FSPs) should be looking to ways to keep up with the changing times, particularly to stay in consideration and current for millennial investors.

Richard Rattue, MD: Compli-Serve SA. Photo: Cover

Interestingly, however, a study by international investment house, Legg Mason, personal interaction is still important for these younger investors – 53% of participants in this group indicated that technology can never truly replace personal customer service. This was particularly relevant when it came to retirement and tax planning, but was of less importance when it came to tracking the stock market.

Furthermore, humans can remove irrelevant data from their memory, which allows for increased learning. Robots, however, store all data, which begs the question around the long-term competency of robo-advice. Nevertheless, much like other technical disruptors have proved and as technology tends to improve on itself, robo-advice is expected to become the standard for digitally savvy investors.

Regulation

It could also play into narrowing the advice gap that pending regulation such as the Retail Distribution Review (RDR) may present – whereby younger or 'wealth-poor' investors (those with little money to invest, but still appetite to save) could be advised. Whether this will qualify as sufficient or appropriate will remain to be seen, but there are plenty of factors that FSPs will need to consider to be compliant as they brave the wave of embracing change.

As part of the fit and proper requirements in Financial Advisory and Intermediary Services (Fais) legislation affecting FSPs - though still to be finalised - robo-advice or automated advice is defined as; “the furnishing of advice through an electronic medium that uses algorithms and technology without the direct involvement of a natural person”.

However, to comply with Fais regulations, an FSP that provides robo-advice must have at least one key individual employed who meets competency requirements. These include the technological capacity to understand the algorithms being used in the robo-advice process, the assumptions and the risks. He or she has to further monitor and review the automated advice generated and ensure its quality is suitable for the investor, and compliant with Fais.

Cost

While these steps briefly summarise the long list of rules-based requirements, one has to wonder how it will be cost-effective to offer robo-advice as a supposed cheaper alternative to ‘smaller’ investors, as well as how smooth the process will be in providing a service that is not only effective, but also remains compliant.

Challenges may already exist in employing a qualified key individual at the outset, but the compliance elements may be best served up with support from a professional services provider that has some depth of knowledge in the subject matter.

Technology will no doubt come at a cost to the FSP, especially from a technology and human intervention perspective. The proposals around operational ability will force expert human intervention in an area generally perceived to operate without human interference.

Robo-advice has landed and markets and regulators are rapidly waking up to this fact. It has the ability to disrupt current market norms and those that choose to ignore this development may well regret it in the future.

I am sure we all remember the Kodak case study - if not, then I suggest a quick Google search session.

ABOUT THE AUTHOR

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