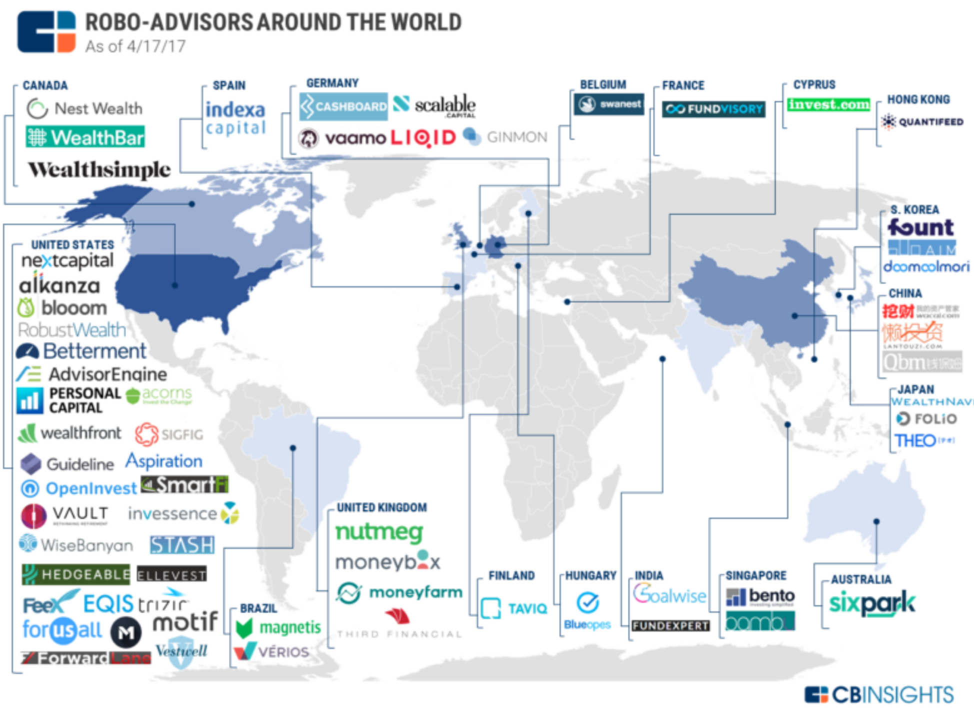
[ROBO-ADVICE AND THE GREAT RECKONING]

Robo-advisors may very well have been the wealth management story of the past year. And not because they have demonstrated runaway success as asset gathering machines, but rather because of how profoundly their emergence has changed how the wealth management industry, indeed, advisors themselves, think about the advice value proposition and the value of advice.

A great reckoning is underway in wealth management, accelerated by the emergence of the robo-advisor. The dialogue about the value of advice has dramatically shifted – in just a few years – from being mainly about investment selection and investment management to a new, more coaching based, and perhaps modular, wealth advice model. One more focused on the strategy of wealth and financial health versus one focused on investment products and returns.

A PROLIFERATION OF ROBO-ADVISORS

Over the past two or three years have seen a proliferation of robo-advisors enter the global market. CBInsights has compiled a handy [list and map] to help you keep track.



While the start-up community has led the charge in building robo-advisors, in the US market, several of the legacy asset manager brands have succeed in bringing competitive and compelling robo-advisor services to market. Vanguard, as an example, has gathered (or perhaps shifted) billions in assets to its robo, [Vanguard Personal Advisor Service] . We have witnessed an overall shift in the robo-advisor market from mainly B2C focused strategies to an advisor focused B2B strategy. Most robo-advisors are either exclusively advisor focused or offer both direct-to-consumer and advisor models. And in further refinement of their focus, many robo-advisors have now embraced a segmented approach to the market, seeking to work with specific types of advisor practices. Craig Iskowitz has written [a good overview] of these offerings on Michael Kitces Nerd's Eye View blog.

Many industry insiders, advisors and customers have been predicting the entry of Big Tech, specifically the consumer technology companies, into the robo-advisor realm. Big or small, start-up or pivoting incumbent, each robo-advisor firm is at risk of the impact the Big Tech firms might have on the wealth space. Yet, despite the predictions and despite the early market validation for digital wealth tools, the three As of Big Tech – Apple, Amazon and Alphabet – have been silent. Not a sound. Are the pundits wrong? We believe not.

MOVING FROM ROBO 1.0 TO ROBO 2.0

Today, we are in the Robo-Advice 1.0 era, where we have witnessed the validation of digital as a compelling and valuable part of the wealth service model. We have also seen a technology-enabled flank attack on the revenue model underpinning the wealth industry. And we have seen the profound value that can be made available to customers when the power of digital is combined with the insight of the human advisor. Some interesting research from Parameter Insights on the human advisor, digital advisor combination may offer a glimpse into the future of the advice delivery model.

Strip the 1.0 era robo-advisors down to their core features and they are essentially slick, digitally powered, mutual fund wraps (or ETF wraps) with great embedded asset allocation and rebalancing tools and well-designed, friendly and engaging user interfaces that manage onboarding, risk assessment and reporting really well. Hardly rocket science, BUT disruptive enough to shake up the value of advice discussion in a way never before seen. While advisors have certainly felt pressure from this disruption, increasing numbers are finding ways to leverage robo-advisor offerings to bring more efficiently into their practices and in many cases enhance the value they can offer the market.

Now we are on the cusp of a new era: Robo-Advice 2.0. And this is where Big Tech, or the “Three A’s of the Apocalypse”, as I like to call them, will attempt to play a big role. They have the tools, the networks and the capital to do it.

What will constitute the Robo-Advice 2.0 era? We believe it will involve a pronounced shift to the digital delivery of real financial advice, NOT just the delivery of investment management on a digital platform. This means more competition for weak advisors and more leverage for strong advisors. Robo 2.0 wil accomplish this by big(ger) data, machine learning, use of modern financial planning engines, broad-based financial data integration powered by open banking API-enabled services, social monitoring, localization, messaging and other human machine interface approaches. This is the disruption that will profoundly change – not destroy – the advice business. And you can count on one or all of Apple, Amazon or Alphabet to be right in the thick of it.

Robo-Advice 2.0 won’t be merely about repricing and scaling a low, value-added service. Rather, it will remake how advice is delivered across the financial services spectrum. Advisors who embrace it will find their practices and customer experience augmented in profound ways. And for those that don’t, they will struggle to maintain scale and service in a rapidly restructuring market.

This is an exciting time to be in the wealth management industry! More on Robo-Advice 2.0 – what we think it looks like and how we think the three As will enter – in a future post.