

ICI VIEWPOINTS

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A Tech-Enabled Future—and Present—for Investment Advice

By Rob Elson

The future of investment advice will lie at the intersection of technology and humanity, said panelists at ICI's 2017 General Membership Meeting. But those panelists—Eli Broverman, cofounder of Betterment; Kelly Coffey, CEO at JP Morgan's US Private Bank; and Ben Huneke, head of investment solutions at Morgan Stanley Wealth Management—offered differing views on how much of a role people will play.

The panel's moderator, PGIM Investments President Stuart Parker, kicked off the session by asking about the most important trends in investment advice. "Our clients are no longer measuring their experience with us against their experience with other financial institutions," responded Coffey, whose firm caters to ultra high-net-worth clients. "They're measuring it against their experience with companies like Amazon, Apple, and Google.

"Clients—and not just younger ones—want access to information, want to see it in a lot of different ways, and want to be able to do more things online. But they still want to talk to somebody," she continued, explaining the bank's focus on coupling human relationships with technology.

"We've made a big bet on human advice," added Huneke, whose firm caters to high-net-worth clients. "But how we deliver that advice is changing. I think the six-month account review at a local branch is an antiquated vision of how our clients want advice. They want it on their iPads and iPhones, so we're making a huge investment to ensure we can meet those needs."

Teaming is another trend he's seeing. "As providing financial advice grows more complicated, it's harder for one adviser to deliver everything a client needs," he explained. "We see a future of 'super teams' that can specialize in elements of a financial plan and deliver things in a much more holistic way, rather than one person in a room trying to do it all."

Broverman, whose firm is the largest "robo-adviser" in the country and targets the "mass affluent"—customers with between \$250,000 and \$2.5 million in investable assets—sees a trend toward greater availability of specialized advice. Betterment, he said, wants to "take the very holistic and personalized level of service that the ultra high-net-worth families can get, and deliver it to [a broader] market in a way that's efficient, economical, and scalable—and every bit as good as what those families can get."

A High-Pressure Environment

Regulatory pressure is playing a major role in how advisers are able to deliver advice, panelists said. "Most of the time, the implementation [of regulation] makes it complicated for clients to deal with us," Coffey said. "But it shouldn't be that way. It should be easy. We move at least \$7 trillion every day, so obviously we should hold ourselves to the highest standard of care. But we are slower than firms in the tech space, because of what we have to comply with on the regulatory side."

The Department of Labor's fiduciary rule, for instance, is "in the direction we want to go," Huneke explained, but "when you get into details, it has a lot of unfortunate consequences practically. We think you can't go wrong with having a universal fiduciary standard for all accounts—not a complicated patchwork of different types of accounts being treated differently—and we hope to work with regulators to get to that point."

Automated solutions and declining fees also are changing the advice environment. "Firms like Eli's are forcing us to raise our game for what our advisers need to do to deliver value to their clients," Huneke explained. But there's still room for fees to fall even further,

Broverman argued, citing “lots of opportunities for asset managers to update and modernize their practices in a way that enables them to lower fees.”

Despite the advantages and cost savings that technology can provide, the “human touch” is still important, Huneke asserted. “Clients and their families deal with complicated things,” including unexpected medical diagnoses (and costs) or heirs who might not know how to handle money. “These challenges are difficult to solve through software, so we’re pushing our advisers to take on the more complicated conversations,” he said.

But not all clients feel they need that personal level of service, so many firms are using tiered fee structures tailored to client needs. “We’re working on something where clients self-select,” Huneke continued. “Do you want to pay X and get Y—or do you want to pay a little more than X and get a little more than Y? That’s part of competing today. Clients want a tremendous amount of choice in how they access these services, and we have to be there for every segment.”

Keeping Clients Safe

For all of the benefits that technology has afforded to advisory clients, it also has created a huge responsibility for firms: protecting against cyber risks. But, the panelists said, their firms are up to the task. Coffey listed a litany of cybersecurity initiatives her firm has implemented to protect client data—at a cost of \$600 million per year—and cited education as among the most important.

“We’re doing everything we can to help clients protect themselves...to help them make sure their networks are as safe as they can be,” she explained. For Broverman, the cybersecurity focus is on showing that his firm is “just as mature and trustworthy as our larger competitors—subjected to all the same rules and regulations that 100-year-old firms are—but not letting it get in the way of a great user experience.”

“It’s a big tension in the system,” Huneke added, summing up the situation. “Clients want greater online access and greater ability to self-serve—and less time on the phone or in a branch—but this creates a whole bunch of other risks.” This, he said, is the industry’s “most existential threat.”

You “need to have, as an institution, the trust of your clients—and it doesn’t take much to break it,” he explained. That’s why cybersecurity is such a “huge source of investment” and a “huge source of focus for our management team.”

Rob Elson is senior writer/editor at ICI.