

Report

Robo-Advisory

The future of financial
advisory services

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Digitisation and financial advisory services in banking



**Luis
Fernández
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Managing Partner
Financial Services &
Real Estate

Following several months of analysis, we are pleased to present our report on *Robo-Advisory, the future of financial advisory services*



**José Luis
Álvarez**

Partner
Strategic Finance &
Consulting

Axis Corporate, in collaboration with Efma, has carried out this study with the aim of offering a vision of the digitisation process of the financial advisory services in Banking worldwide. The study aims to show the trends and strategies of banking entities to incorporate these services in their different channels, using Robo-Advisory models as an illustrative example of this digitisation process.

Robo-Advisory platforms may be the first digitised financial advisory service in Banking. The study of different implementation and integration strategies for Robo-Advisory methodologies in commercial models and processes in banking can offer an insight into the future challenges of the digitisation process for financial advisory services in general.

There are different factors that are driving the need to integrate digital financial advisory services in the different Banking channels and which highlight the importance of knowing the future challenges in its digitisation process:

- ▶ To be able to expand the range of services in digital channels.
- ▶ To improve the user experience in all channels.
- ▶ Improve business processes in terms of efficiency and rigour in the recommendation of products in traditional channels.

This report consists of an executive summary with the main ideas of the study, followed by nine Key Findings, where we show the most relevant statistical results of the study, supported by specific articles with the opinion of our experts.



**Vincent
Bastid**

Efma CEO



Challenges and opportunities in digitising of financial services in Banking

What is the Bank's strategy in relation to Robo-Advisory solutions?

In recent years the financial sector has been an environment characterised by low interest rates, changes in customer uses and attitudes and an increasingly demanding regulatory framework that targets a large part of its corporate activity. This situation has opened the door to new players in the financial market, offering advanced advisory solutions for the management of financial assets through Robo-Advisory platforms.

In this report, we have analysed the evolution of financial advisory services and their integration in the current models and commercial processes of Banking.

Robo-Advisory platforms are based on the automation and digitisation of advanced models of financial asset management aimed at customer segments that until now had no access to this type of advice. In addition to the algorithms for the creation and management of a portfolio, these models incorporate simulations of future scenarios and backtesting, enabling a better understanding of the objectives and global risks of a portfolio of financial products to be offered. They are all available on digital platforms that allow an on-line visualisation and at a very low cost.

Although availability of Robo-Advisory platforms represents an important qualitative leap to enable greater financial advice in retail segments, the banks surveyed state that they still do not perceive for these platforms as a real threat given that:

➤ The Robo-Advisory models are in a **very early phase of adoption** by the market.

➤ **Marketing investments** to attract customers constitute an important barrier to entry for new players in the market.

➤ **Trust and an established banking brand** continue to be decisive factors for the majority of customers in their investment decisions.

The general opinion among financial institutions is that **the digitisation of financial advisory services marks the roadmap for the future in Banking**, given that the real threat is the possible invasion of the financial market by BigTech firms with these solutions.

In this sense, the banks surveyed state that the reasons that drive the process of introducing Robo-Advisory models in their commercial channels are, mainly, **to complete the range of services in digital channels and improve the current customer experience in all their channels**, at the same time as improving efficiency and reducing marketing risks in traditional channels.

The need to implement these solutions in all channels, following the omnichannel and optichannel principles, **makes hybrid Robo-Advisory models the most widely accepted solution among banks surveyed.**



“People have adopted mobile technology at an extraordinary speed, completely changing the way they relate to their bank”

James Griffiths, Asia Pacific International Relations Manager, Citi

Key Finding #1

69% of banks place the digitisation of financial advice among their top five strategic priorities

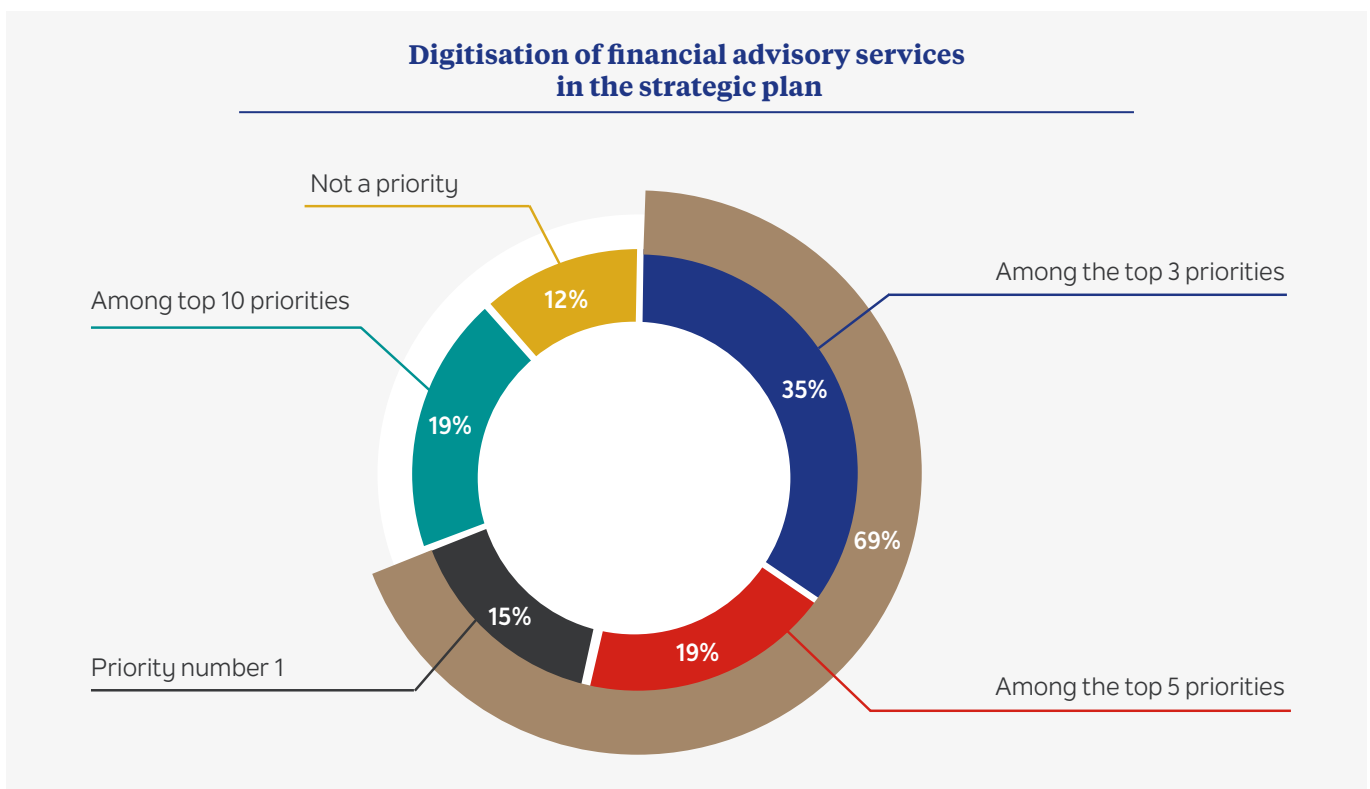
Only 12% do not consider it among their top 10 strategic priorities.

James Griffiths, Asia Pacific International Relations Manager, Citi, describes for an Efma report on *Shaping the future of retail banking* how digitisation is Citi's main priority in order to make its business more efficient. "Digitisation is extremely important for Citi for several reasons; the most important is because our customers expect it. People have adopted mobile technology with extraordinary speed in recent years, completely changing the ways in which they communicate and access information and a growing range of services.

As a global bank with a predominantly urban and mobile customer base, we have to meet these new expectations."

Banks are following two different strategies:

- Digitalising their financial advisory services as a strategic lever.
- Joining the current trend as a result of the influence that digitalisation is having on their market.



Source: Survey conducted by Efma and Axis Corporate for the report on Robo-Advisory 2017.

Key Finding #2

92% of banks believe that financial advisory services can be totally or partially digitised

Robo-Advisory for Retail Banking and Treasury Management for SME Banking are the services that are considered most digitisable.

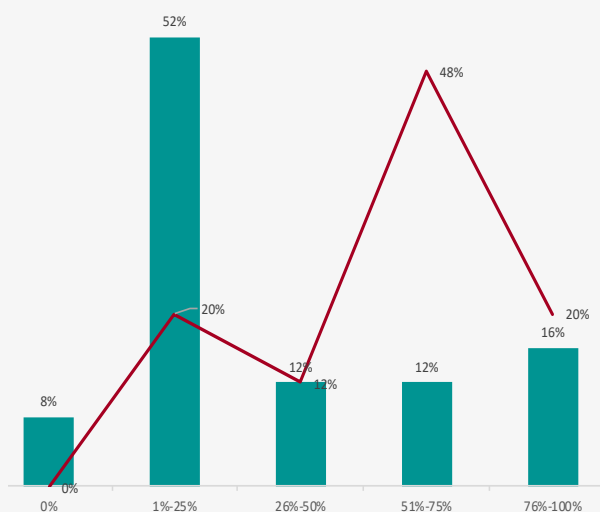
The Robo-Advisory services for Retail banking and Treasury Management for SME Banking are, in the opinion of the banks surveyed, the financial advisory services that can be most readily digitised today.

In the case of Treasury Management for SMEs, that opinion is shared by 79% of respondents. In both cases, 100% of the banks surveyed believe that, for these services, they may be partially or totally digitised within the next of five years.

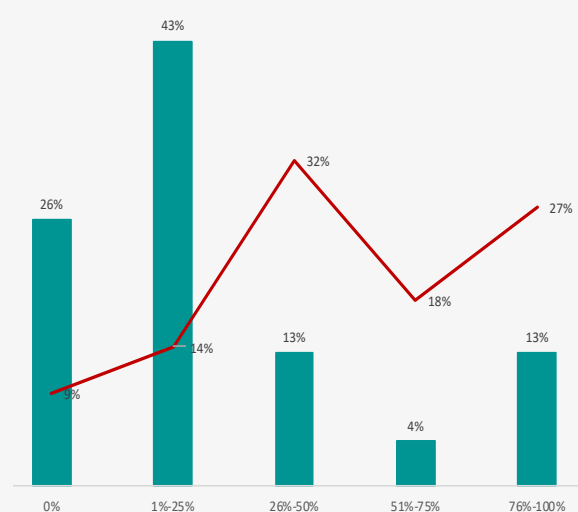
Evolution of digitisation in financial advisory services

Management NOW
Management 5 YEARS

Portfolio Management in Retail Banking

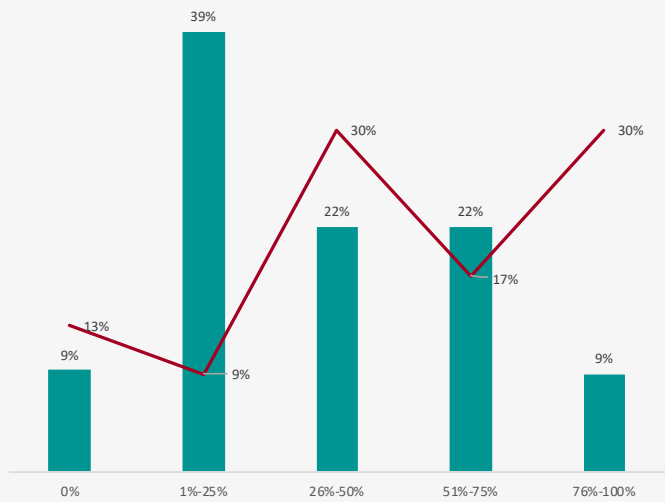


Retirement Advice in Retail Banking

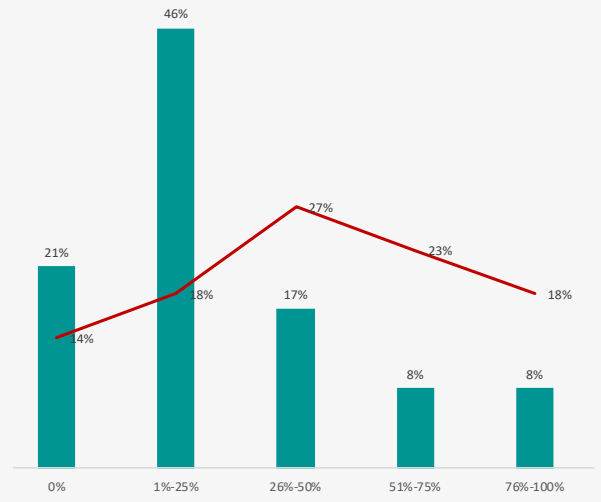


Key Finding #2

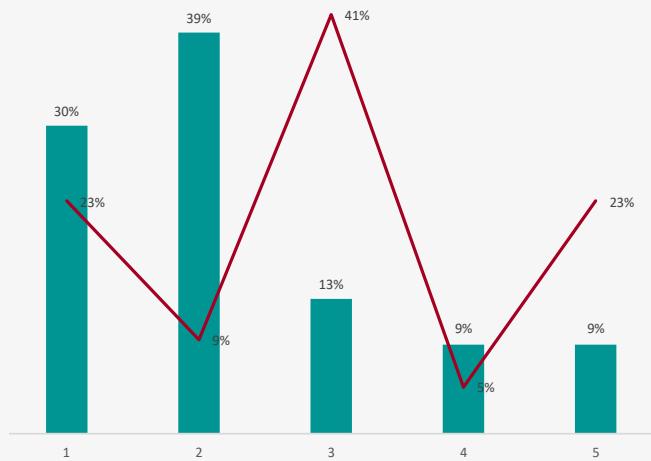
Risk Management for Retail Banking



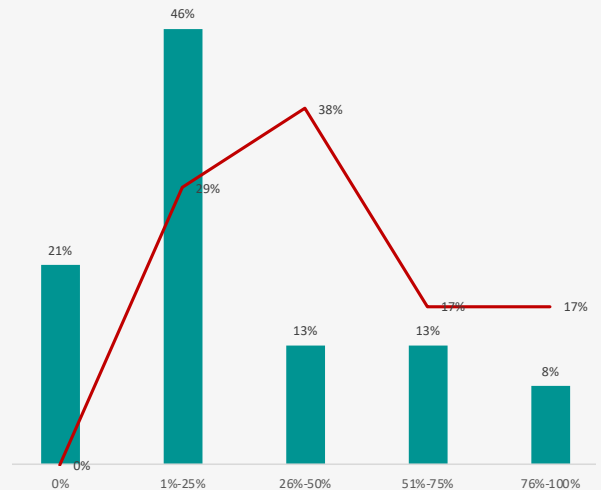
Mortgage Advice for Retail Banking



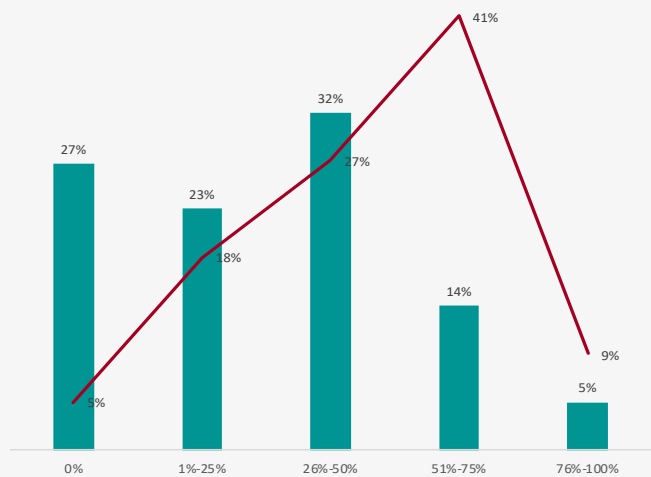
Risk Management for SMEs



Cash management for SMEs



Financial requirements for SMEs



Source: Survey conducted by Efma and Axis Corporate for the report on Robo-Advisory 2017.



By **Luis Fernández de Nograro**

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The challenge of providing a distinctive value in Banking

We are facing an absolutely fascinating transformation scenario of the bank customer relationship, which implies structural and cultural changes in banks.

The availability and lower cost of technologies allow for a speed of change that puts maturity and acceptance of the transformation to the test. We can observe studies being undertaken, as something that starts off at a distance, takes off and speeds up after a few months. We see this through the participation of banks themselves in this study.

I would like to thank again all those people we have surveyed for their contribution and comments that have allowed us to prepare this extensive study on Robo-Advisory, its feasibility and implementation models, for their participation and comments.

Aspects such as full digital relationship through mobile devices are no longer perceived as pure fantasy and, therefore, the risk of non-differentiated from the competition is a relevant aspect.

The need to provide an advisory service would seem fundamental. The question is how this provision of advice is carried out and what business models will apply.

From the opinions gathered in this study and from our own experience, the definition of the commercial model, with the relationship and operational aspects to follow, as well as its evolution, will define the future competitive advantage of banks. Technology enables advisory services to be delivered to more customers more effectively, but it is necessary to define how.

The application of these changes will not be the same in private banking as in commercial banking, for example.

I hope that this report helps to resolve answer some of these key questions and to help banks to determine their own position regarding this matter.

Banking is facing a radical shift in its relationship with the customer



By **José Luis Álvarez**

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Robo-Advisory: automation and digitisation of advanced financial advice

How the traditional banking model can benefit from digitisation.

As we have been able to see from in the results of this study, the possibility of automating and digitising all or part of certain financial advisory services allows us to address many of the challenges currently facing Banking. Principally, we can highlight that digitalisation can enable banks to:

1. Access a specific segment of customers with a full range of services in digital channels.
2. Improve the user experience through the use of digital support in the process of advising or monitoring their operations and products.
3. Improve business processes, being more efficient and rigorous in adapting products to the profile and needs of the customer.

The digitisation process is most useful when the information needed to carry out the assessment is large and complex. In this way, traditional commercial management can complement these tools when it is necessary to perform these types of calculations efficiently.

One of the first advisory services to be introduced in the financial sector as an automated and digital solution is the management of financial assets portfolios: the Robo-Advisory platforms. These platforms allow an important qualitative leap in the management of financial assets for the retail segments, allowing these customer segments to have access to construction methodologies and management of financial assets portfolios that, until now, for reasons of efficiency, have not been provided by the banking sector.

The catalogue of products and services that can follow the path of Robo-Advisory solutions will continue to increase, especially for those customer segments that due to their characteristics find it difficult to access to specialised personal advice.

One of the segments of special interest whose characteristics make it appropriate to benefit from the automation and digitisation of assessment is SMEs, especially micro-enterprises.

As an example, in Axis Corporate we have developed an automated and digitisable model of self-assessment of financing needs for micro-enterprises. The objective is to help small businesses avoid liquidity tensions that arise, especially by the increase the needs of working capital in the initial phases or in the moments of growth and expansion of the business. This tool is useful both for micro-enterprises and banks to be able to anticipate and plan the financing needs of working capital, before liquidity problems arise. or solvency, at which time it is more difficult or expensive to access financing.

The list of services for automation and digitisation will grow. Its impetus will come from both the changes in usage and attitudes of customers in the use of digital channels, as well as from the commercial network itself that will demand advanced support tools in order to offer better quality advice.

Key Finding #3

62% of banks think that the main driver for digitising financial advice services lies in improving the user experience.

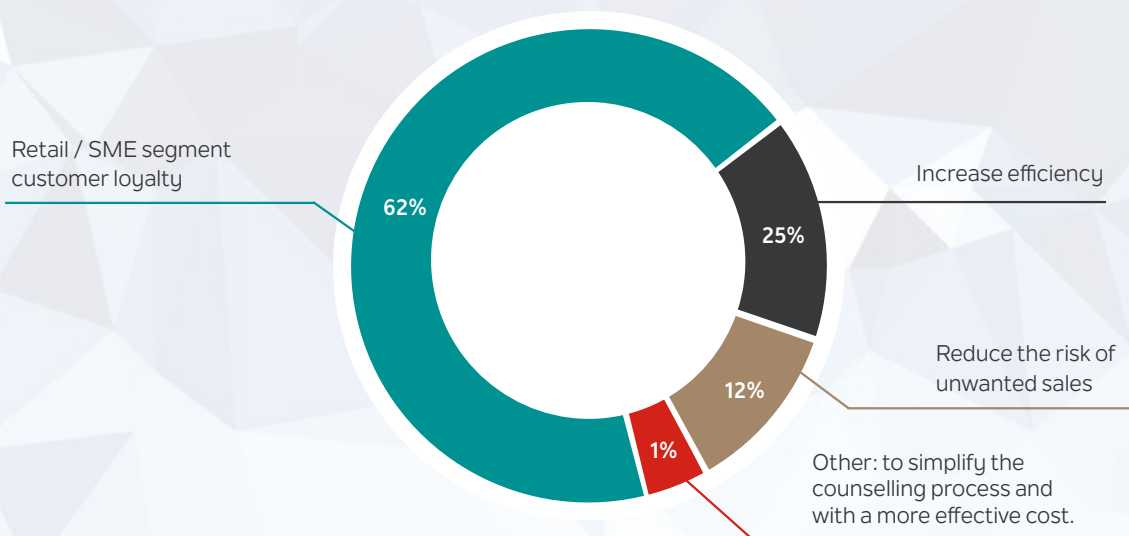
The objective of improving the user experience is to retain loyalty among existing customers

More than 40% of banks surveyed believe that the main reason for digitising financial advisory services lies in the loyalty of current customers, rather than in attracting new customers or digital customers. The conclusion is that the digitisation of financial advisory services for Retail and SME banking is mainly focused on existing, rather than new customers.

Only 25% of the banks surveyed, when thinking about digitisation, are focused on increasing the efficiency of the business, while 12% think that they would do it in order to reduce sales risks.

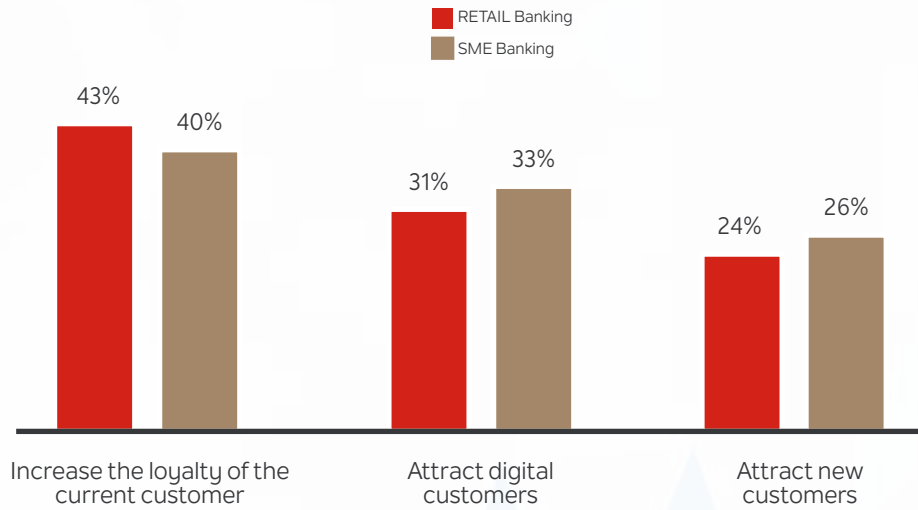
"As the speed of technological change has accelerated, the behaviour of customers has been changing rapidly, so we need to innovate to meet the new needs of customers. Institutions may risk losing their customers if they do not make the effort to promote digital transformation", says Makiti Shibata of the Bank of Tokyo-Mitsubishi for the study, Driving change through innovation, undertaken by Efma.

Factors driving the digitisation of financial advice services



Source: Survey conducted by Efma and Axis Corporate for the report on Robo-Advisory 2017.

Objectives by segment to digitise financial advisory services



Source: Survey conducted by Efma and Axis Corporate for the report on Robo-Advisory 2017.

The attractive potential of Robo-Advisory

An efficient operating model will ensure the success of Robo-Advisory.

Due to the economic crisis of recent years, as well as the regulatory pressure of the sector and the changing demand of customers, financial institutions in recent years have been affected by a significant reduction in their margins, as well as the size of their branch network and the customer traffic in them.

Studies of the sector indicate that in the coming years, 80% of customers will be of the “self-service” type. This implies that entities must be proactive in contacting their customers, in order to retain them and increase sales through cross-selling and upselling.

Financial institutions are aware of these new demands and the need to reduce their costs to improve their margins. Therefore, in recent years they have made a heavy investment in the implementation of remote channels. This has taken place primarily in customer contact areas, both in the front office, and in digitising customer-driven transactional processes.

The next step is to progress the digitisation of customer advice. This digitisation of advice will allow for the expansion of the “target audience” of certain products or services that until now were more focused on customers with high purchasing power and high net worth.

A clear example of the digitisation of advice is the Robo-Advisory platforms, focused on portfolio and asset management. These platforms are now within the reach of customers with small assets, a very broad market with little investment culture. Advanced portfolio management methodologies and availability of information, will drive greater loyalty among existing customers to use this service.

Other key aspects to attract and retain this type of segment, apart from those previously stated, are the low access costs of these services, as well as the digital culture of the new generations of customers (generation Z and Y).

Impact on the operating model

The need to have low costs and reach a high volume of customers directly impacts the operating model and its efficiency. For this reason, both the product and the service must be digitised from end to end, that is, not only the advice, but also attracting new customers, customer management and portfolio management, thus minimising operating costs. Otherwise, the service, particularly in the case of customers with low assets, will not be profitable for the institution.

Therefore, not only thinking about the customer advisory phase, but also the design and digitisation of the operating model and relationship with the different customer segments, a model designed to increase operational efficiency, will be crucial in the implementation of these Robo-Advisory platforms,


The key aspects to consider in the definition and digitisation of the operational model and relationship with the customer, models that will be one of the main competitive advantages of the product/service, are:

1. The segmentation and customer plan associated with each segment (products, services, terms and conditions, commercial offering, channels, etc).



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2. The definition and design of processes focused on the customer: simple, automated and taking into account the entire value chain (training-recruitment-advice-management customer-administration portfolio). The models must be designed, mainly, for self-service and determining the level of access to value services based on the customer segment, and which will have different commercial conditions.
3. Digital integration of suppliers / partners in the value chain.
4. Relationship model with the customer and degree of digitisation according to the segment:
 - › Robo-Advisory as the only advisory and relationship tool.
 - › Manager and Robo-Advisory as advisory and relationship tools.
 - › Robo-Advisory as advisory tools and main contact channel, and manager support to improve confidence in self-service usage.
 - › Manager as principal advisor and Robo-Advisory as an additional tool.
5. Customer monitoring model and its positions, focused on the customer and not on the contracted products.
6. Similarly, and as key tools for customer attraction and loyalty (the level of access to these services will depend on the customer segment):
 - › Systematise customer training, thus eliminating the “fear of investment” barrier.
 - › Access to information and backtesting tools that facilitate decision making to customers when investing.
 - › Define and automate the different investment methodologies that you want to put within reach of the customer.



Digitisation will offer greatest competitive advantage over the near term

José Luis Álvarez. Partner, Strategic Finance Consulting at Axis Corporate.

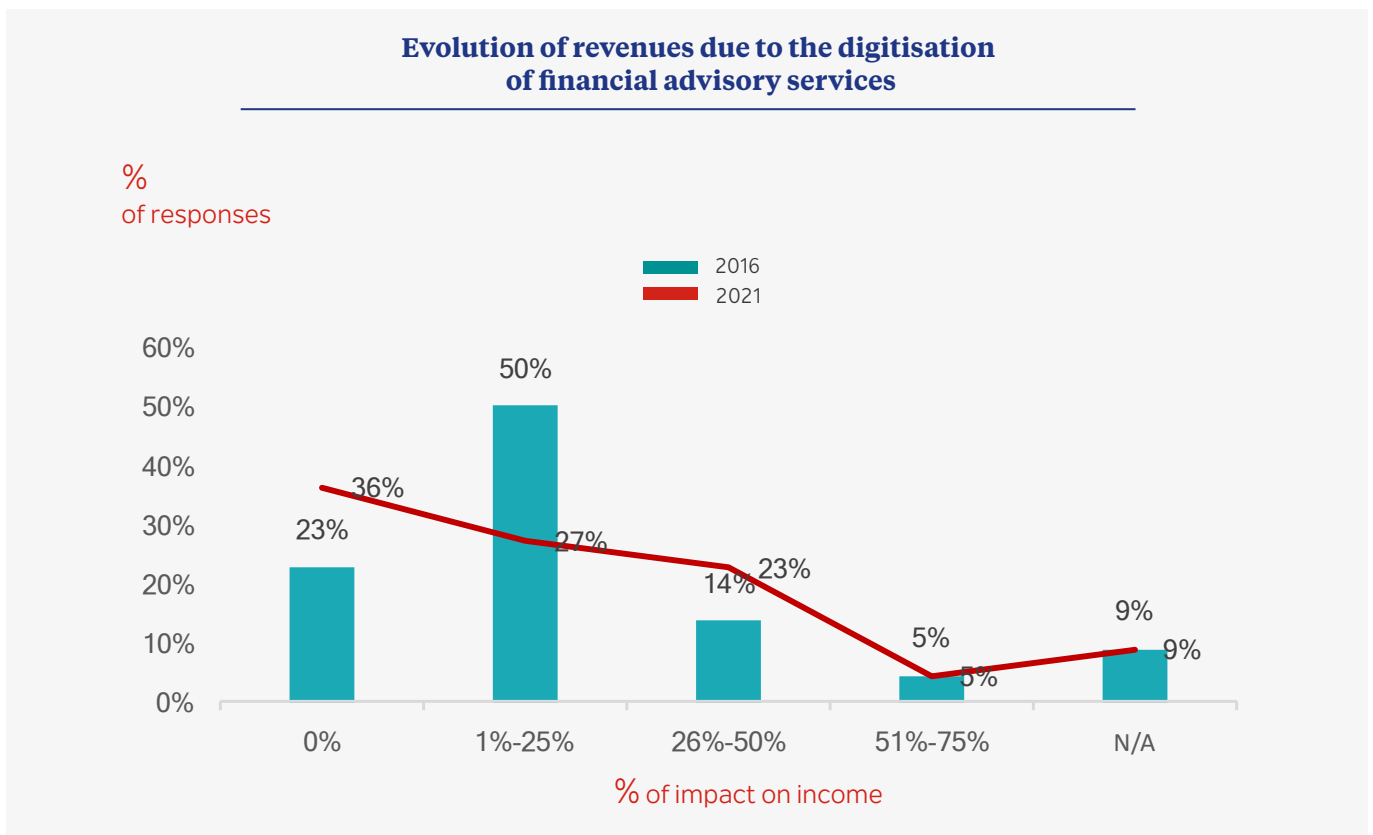
Key Finding #4

60% of banks believe that the entities that invest first in the digitisation process will see the greatest positive impact on their revenues

The majority of the banks surveyed agree that the greatest impact on income will occur more now than in the next five years.

Although banks believe that the importance of digitalising is high, there is no clear opinion on the scale of the impact that the digitisation of financial advice services on business income will deliver.

This is what Olivier Crespin, director of Digital Banking for the DBS Bank Group, says in the study *The Journey to Digital*, produced by Efma: "Change is never easy and the digital transformation of each bank will require a lot of energy and a sustained investment. I believe that the imperative of change is undeniable, and therefore it is reduced to each organisation achieve the balance between driving the digital transformation, while ensuring stability and daily profitability of its bank".



Source: Survey conducted by Efma and Axis Corporate for the report on Robo-Advisory 2017.

Key Finding #5

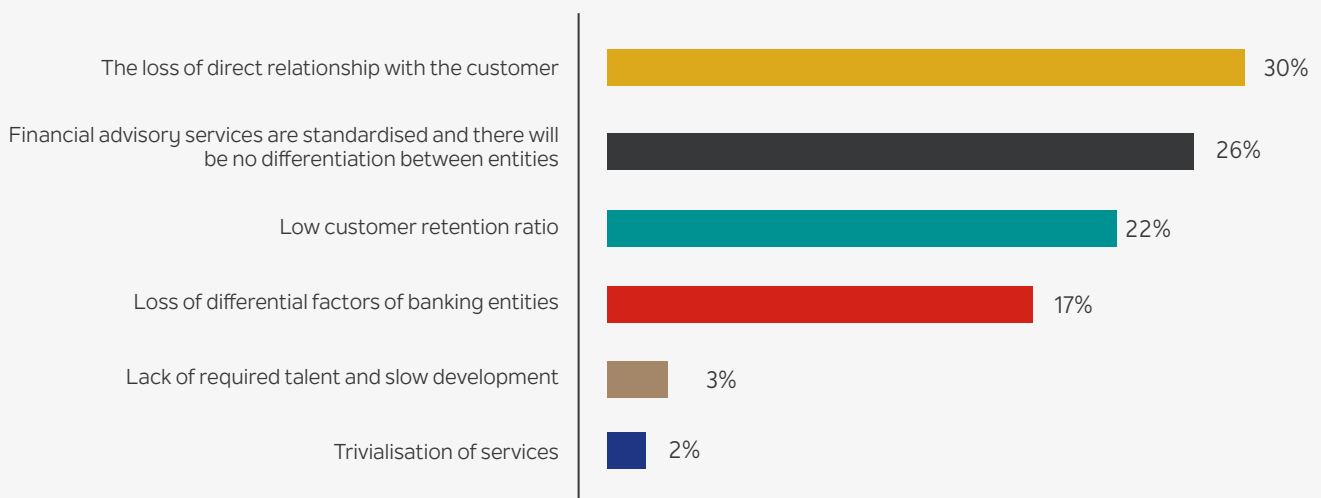
30% of banks fear a loss of direct relationship with the customer with the digitisation of financial advisory services

Among the main risks posed by digitisation are the loss of differentiation of services and ability to retain customers.

Although there seems to be a range of opinions on the main risks that banks face when it comes to digital financial advisory services, 30% of the banks surveyed fear that the digitisation of financial advisory services will imply a loss of direct relationship with the customer.

The loss of differentiation between the services offered by the different banks and the ability to retain existing customers are perceived as the main risks.

Main risks of the digitisation of financial advisory services



Source: Survey conducted by Efma and Axis Corporate for the report on Robo-Advisory 2017

Key Finding #6

More than 53% of banks prefer to acquire existing solutions or platforms to implement the digitisation of financial advisory services

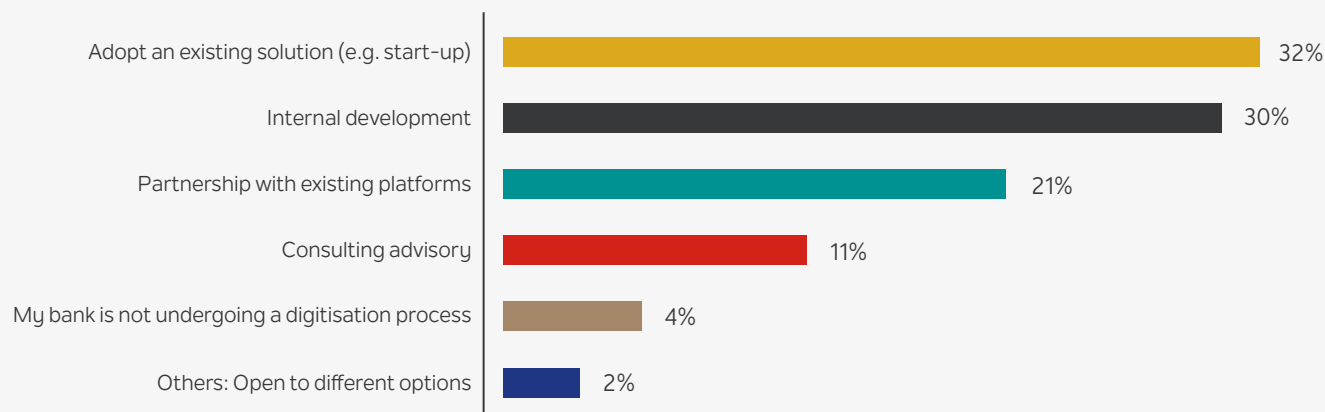
Within the institutions' plans for digitisation, acquiring a start-up or reaching an agreement to implement an existing solution are the preferred solutions when introducing a Robo-Advisory solution

In spite of not having a clear consensus on which is the optimal solution for the implementation of these services, more than 53% of the banks surveyed emphasise that, in order to implement the financial advisory services, the best option is to obtain existing solutions through acquisition of start-up, followed by agreements for the implementation of solutions in operation.

In a recent interview by Efma with FairFax Media, Mark Hand, ANZ's Managing Director of Corporate and Commercial Banking, highlighted how crucial it is for the bank to work with external providers to create an effective digital strategy.

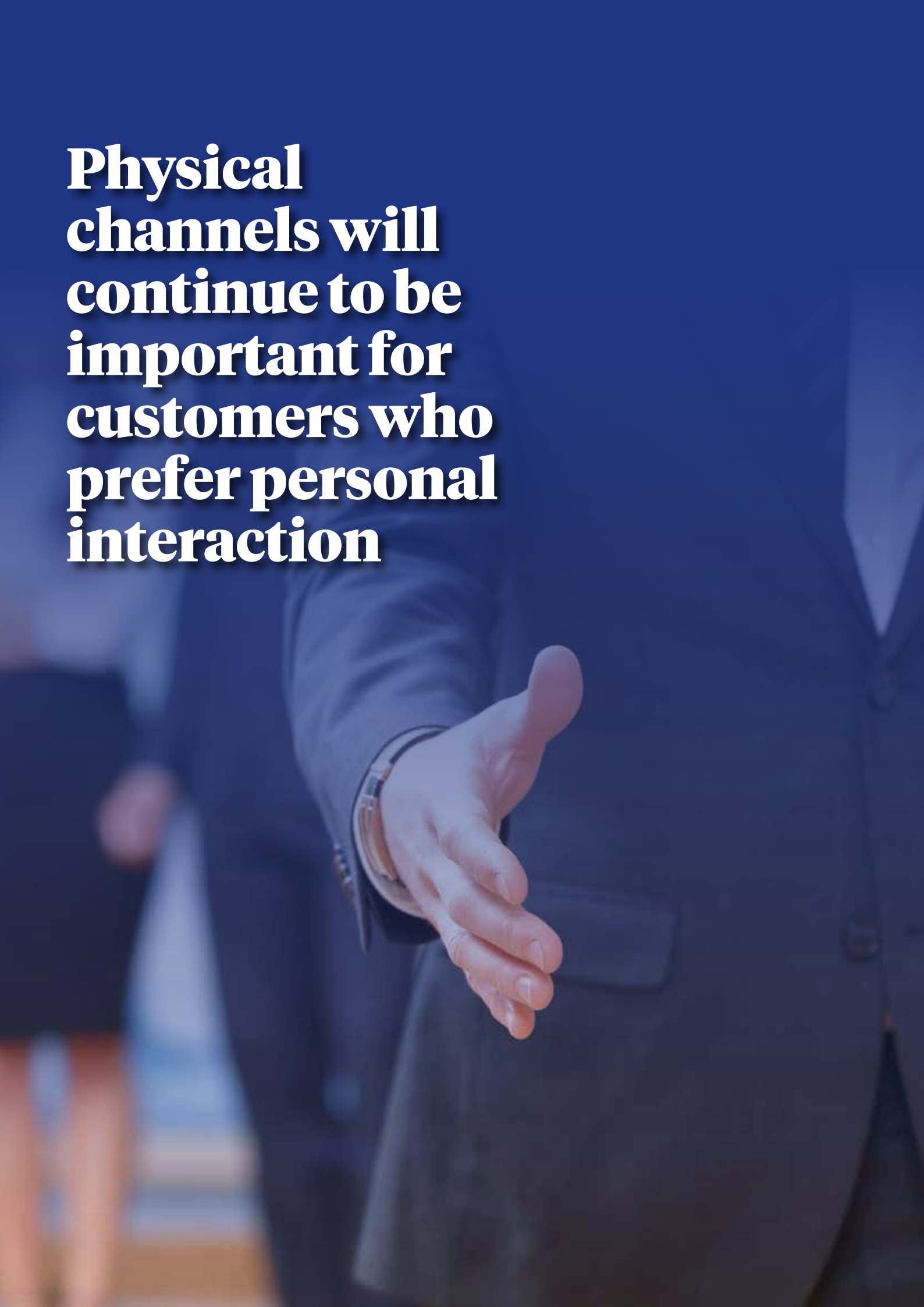
"It was obvious that we are not the right people to build something of this capacity. There are people out there who are much more agile, and it has become undeniable for us that we need to learn to partner with organisations that can help us bring some improvement to the table for our current customers and potential customers." With this in mind, ANZ has announced that it is contributing with the launch of Honcho, an online platform that offers customers the opportunity to create their small business in a day, along with tools to help their business to grow.

Banking plan for the digitisation of financial advisory services



Source: Survey conducted by Efma and Axis Corporate for the report on Robo-Advisory 2017.

**Physical
channels will
continue to be
important for
customers who
prefer personal
interaction**



Key Finding #7

77% of banks agree that the hybrid model will be the best option for the future

Branches and traditional financial advice will be part of the digitisation process within the omnichannel or optichannel concept

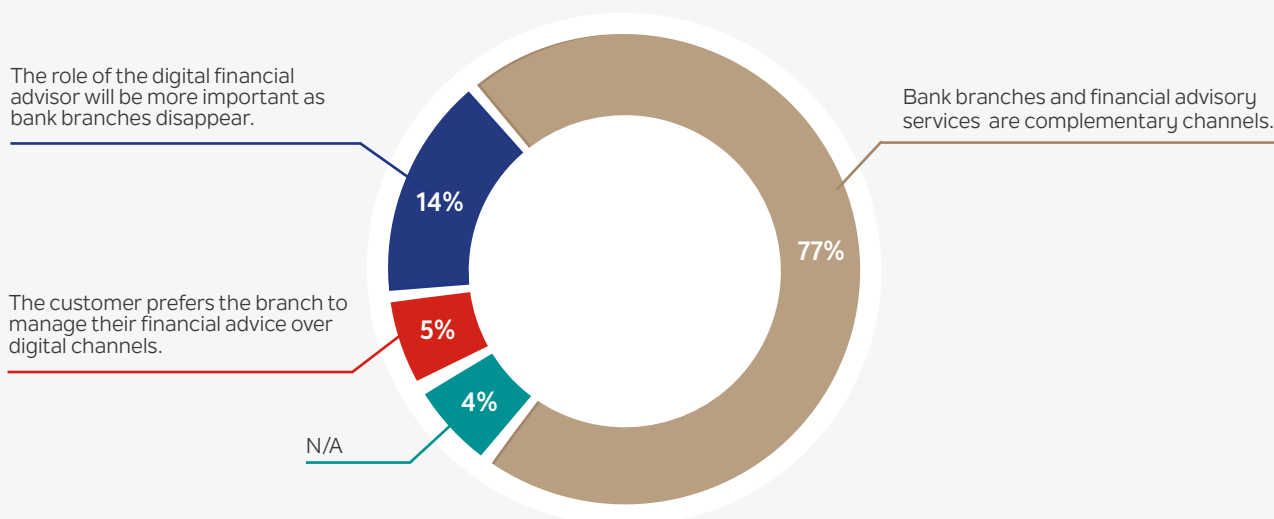
According to the banks interviewed, personal advice remains key in the key moments of a customer's life, even in the most digital customers. The possibility of combining the trust factor in the traditional manager with the use of more advanced tools can constitute the main competitive advantage of commercial models based on bank branches.

This is mentioned in the *Building the future of mobile banking* report, presented by Efma in collaboration with Wavestone: "Given the opportunities opened up by digital technologies, one could assume that completely digital models are the future of banking. The reality is that some form of physical presence is still well received by customers, even though most banks know that they must reposition their traditional branch model. The local branch is a key point in the journey of the customer, since most customers regard it as a primary form of commitment.

This is also where the bank can increase its customer base quickly." Instead of leaving their bank branches, mBank in Poland opened "light branches" in shopping centres and "advisory centres" in office buildings; both places receive a large amount of income from consumers.

During the Think Tank carried out by Axis Corporate and Efma, where global banking executives participated, it was highlighted that digital channels and the services provided through them will be increasingly important for frequent digital technology users. However, physical channels will continue to be important for customers who prefer personal interaction, especially when making important decisions in life; for example, taking out their first mortgage.

The future of branches and financial advice



Source: Survey conducted by Efma and Axis Corporate for the report on Robo-Advisory 2017.



"The digital change, regulatory requirements and addressing changing customer needs, are the main challenges for banking in strengthening its relationship with the customer"

Joan Carbonell. Partner, Banking and Real Estate at Axis Corporate



By **Joan Carbonell**

Partner, Banking & Real Estate

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Robo-Advisory is changing current banking business dynamics

The hybrid model combines the personal attention of a Relationship Manager with the ease of use of Robo-Advisory tools

In 2009, Businessweek asked an AI (Artificial Intelligence) company to define an algorithm to select 50 companies whose business trajectory would be relevant, unknown to the general public at that time. Seven years later, if this list (containing companies such as Spotify, Evernote and Palantir) had been structured in a fund would have been the vehicle with the second-best aggregate performance in recent history.

While at this point no one doubts the power of automated advice for both the customer and the organisations themselves, for the quantity and quality of analytical information they provide, the market recommends a hybrid customer approach, which combines the functionality and ease of the robo-advisor with personalised attention. There are several reasons why the industry favours these short-term hybrid models:

1. The diversity in the customer base, where millennials coexist, with a philosophy of relationship with the eminently digital financial institution, along with baby boomers who still value in a very positive way the personal relationship with banks.
2. The lack of history of the automated advisory systems as commercial tools integrated in the value proposal of the institutions, mainly in traditional banks. However, managers like Charles Schwab have already implemented automated advice models, without advisory fees or commissions, and the ability to have the support of a 24x7 manager.
3. Resistance to change within the entities themselves, with operational and commercial models still structured around products / channels instead of around the customer.

It seems clear therefore that the approach and medium-term service will be mixed, balancing digital advice with the ability to access personal managers.

Challenges of the hybrid model

The hybrid model has clear advantages in terms of customer experience (proven results, economies of scale), but it also presents a series of challenges to ensure its implementation in a consistent manner:

1. Adapt the value proposal:
 - Review the pricing model, setting the right type of fee structure and competitive positioning against 100% digital competitors with very aggressive economic models.
 - Define what functions will be executed by each type of resource, with different strategies, from absolute multi-channel capacity to the definition of segmented models, in which the basic advice (portfolio type, investment proposals) is carried out by the robot and the personal manager attends to tasks of greater added value, as a defensive measure and differentiation before the progressive commoditisation of personal advice.
 - Define the customer service model and what degree of integration both channels will have, ensuring that any interaction has an aligned and consistent response to the customer.
2. Integrate the robo-advisor in the in-house operating model and integrate its various components (processes, organisation, objectives, incentives, reporting) with a comprehensive vision of the customer. We are at the beginning of the transformation of the customer service model. A moment when the different entities have to define what competitive strategy they want to adopt in relation to the introduction of robo-advisors and manage the operational impact that this decision will have on the business in order to be competitive in a consultancy environment is eminently digitally and remote.

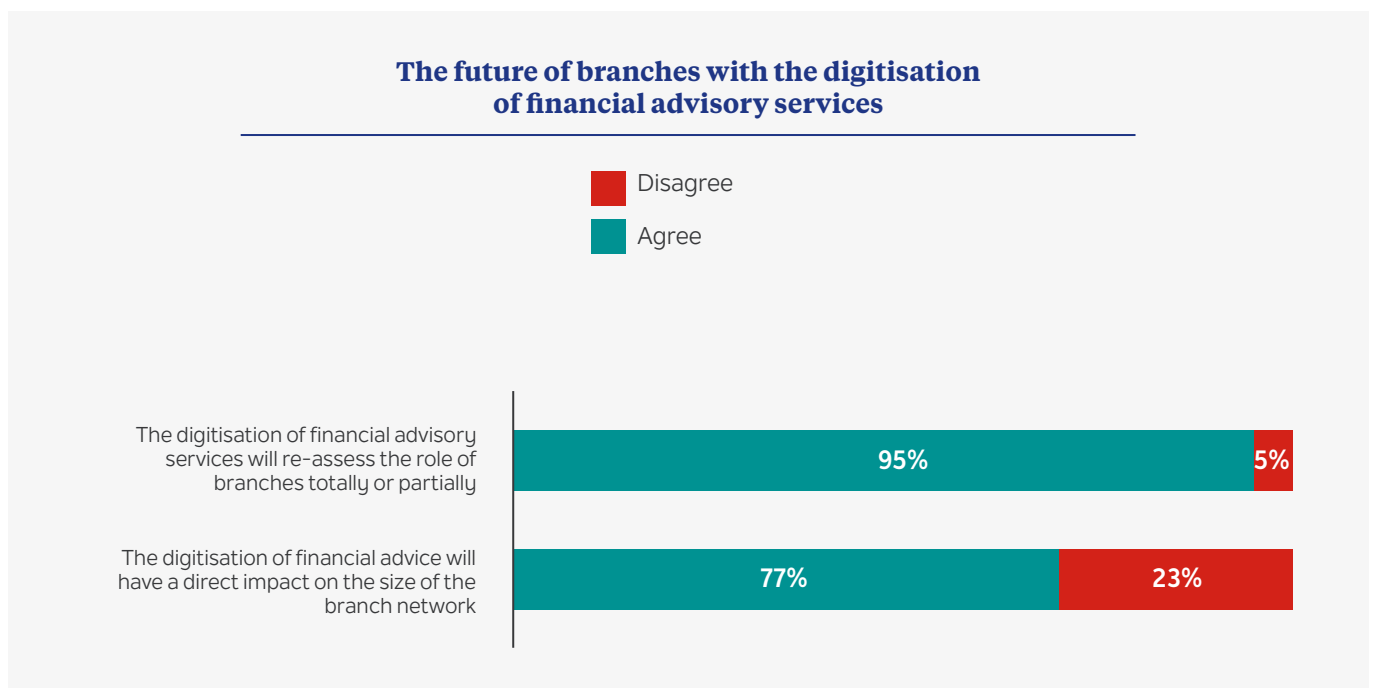
Key Finding #8

95% of banks agree that the digitisation of financial advisory services will force a fundamental change in the role of the branch

One of the main consequences of this redesign will be the resizing of the branch network.

During the Think Tanks organised for this study, the Executives of the participating financial institutions confirm that banks are fully aware of the changes in society and its impact on the way people are operating in banking. Everyone knows that they have to adapt their reach, as well as their organisation, to match these changes in customer uses and attitudes.

This is reflected in the data obtained in this study: 95% of respondents agree with the statement that the role of branches will be re-evaluated to a greater or lesser extent. Another additional fact: 77% of the surveyed banks say that the digitisation of financial advisory services will have a direct impact on the size of the branch network.



Source: Survey conducted by Efma and Axis Corporate for the report on Robo-Advisory 2017.



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The role of bank branches within a hybrid financial advice model

The manager can offer personalised and advanced advice.

The main objective for banking in bank branches is to transform them into financial advisory centres, diverting other types of services of lower added value to ATMs or digital channels.

The possibility of automating and digitising certain advisory services will allow the bank offices to efficiently offer advanced services. In this sense, the automation and digitisation of a certain type of advice in which, for personalisation, it is necessary to have extensive information and perform complex calculations, will allow a qualitative leap in the advisory services of banking offices.

Having these tools will allow the manager to offer advanced and individualised personal advice. In this sense, if the confidence factor in personal advice and the banking brand are relevant for many customer segments, this qualitative advance in assessment can constitute the competitive advantage of the bank compared to new players in the financial market.

Automation and digitisation also require the standardisation of advice. The same customer will have the same recommendation within the same channel, regardless of the bank branch in which he/she decides to go. In the same way, if an omnichannel and optichannel strategy is chosen, the recommendation will be the same in all channels. In this way, the advisory role of the commercial manager in the banking offices will not focus exclusively on the customers that choose personal advice, but it will also have to cover the customers of the office who opt for some advisory services in the digital channels and need, at some point, personal support to better understand the advisory process in the digital channel.

The new digital support tools for bank branches correspond to the hybrid model (robo-advisor for advisors) that if an omnichannel or optichannel strategy is chosen, it will be the same platform used in digital channels adapted to the commercial characteristics of this channel.

As a consequence, the level of training and specialisation of commercial managers in the branches will be driven by regulatory requirements as well as the need to be able to give the advanced advice that the new support tools require.

As an example, knowing the characteristics of an investment or pension fund is not the same as knowing the methodologies of construction, management and monitoring of an investment fund and / or pension portfolio. The introduction of a Robo-Advisory hybrid model will necessarily lead to the manager having knowledge about all aspects of the management of a portfolio of financial assets.

Another example could be financing products for SMEs, since an advanced support tool will allow Managers to move from offering credit to advising the customer, for example, in the management of working capital needs or in the management of capital cost.

The digital advances in many banking services, including advice will allow a greater focus by offices on services of greater added value and will imply a progressive redesign of bank branch functions, constituting the distinctive competitive factor with respect to the new market entrants with a purely digital approach.



Key Finding #9

86% of banks agree that the digitisation of financial advisory services will enable a better assessment of the customer

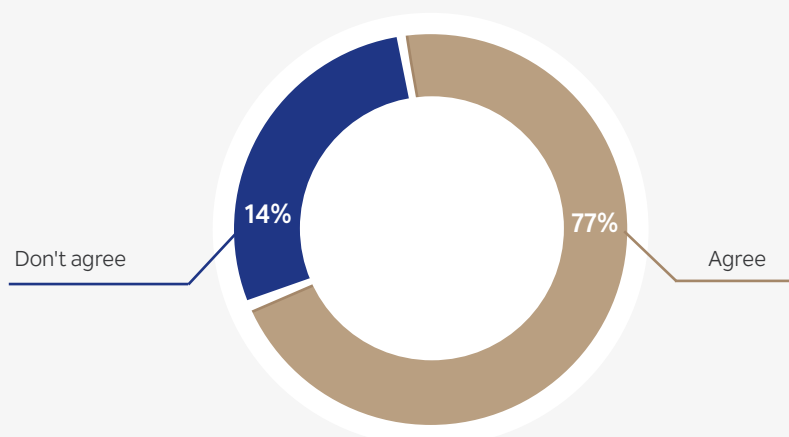
The new methodology associated with digitisation allows the use of a better system for assessing the characteristics, habits and needs of the customer.

COMARCH and Efma in their study, *The evolution of private banking and wealth management resulting from digitization*, conclude that the personalisation of services occupies first place and is perceived as more important than the quality of the product itself. They claim that the importance of presenting the right offer to the right person at the right time and place is even more critical. When analysing the activities and habits of online customers, banks can obviously better understand the needs of those they serve and combine those needs with relevant offers that can often go beyond the scope of services limited to traditional investment advice.

In the banking sector, the changing profile of the customer is something that Vietnam International Bank (VIB) and other institutions consider a challenge to which they must quickly adapt, to make sure that they continue to meet the needs

of customers. This is what Warren Cammack, Innovation and Strategy Executive of Vietnam International Bank (VIB), mentioned in the study *Retail Banking in Asia Pacific*, published by Efma: "Soon we will publish a new service that will provide analysis of digital financial needs that will allow customers to have an even greater idea of what they need and how VIB can help them achieve their goals." The Executive believes that innovation is a key element for VIB's growth and they see it as an integral part of providing its customers with products and services to meet their needs. This will allow us to concentrate our efforts where customers need them most. "Releasing our mobile banking application in 2015 was a milestone for VIB and allowed us to achieve a solid growth of new customers and a greater satisfaction of our current customers", says Cammack.

The digitisation of financial services will introduce a better assessment of customers' needs



Source: Survey conducted by Efma and Axis Corporate for the report on Robo-Advisory 2017

Robo-Advisory and the new customer assessment model

The success of Robo-Advisory implementation lies in a truly innovative business model.

The financial advisory market is changing rapidly. The financial sector is working towards the integration of more innovative models in their strategic plan, to increase their business volume, providing their customers with the products and services they demand today.

Existing customers are accustomed to having instant access to information to decide their purchase decisions, in all other aspects of their lives. Now they expect the same from financial service providers.

In unregulated markets such as Retail, the FMCG or the tourism sector, firms make suggestions in order to stimulate the interest of the consumers whilst they browse the product, so that they obtain enough information about the purchase option that best suits their interests.

By contrast, the Financial Services sector, as a regulated market, does not follow the same pattern. Many financial institutions still offer a financial advisory service based on personal interaction or a limited selection of Retail Banking products. If we take into account the ageing population, the adjustment of pensions both from the point of view of financing and investment could tip the balance towards greater automation of these services, increasing the volume of assets to manage, but accompanied by a greater need for personal relationship by this segment of customers.

In this context, we have found that a large proportion of Financial Institutions have set aside the provision of financial advice in favour of the high purchasing power segment, providing a significant opportunity for new technological players to enter and position themselves in the financial market.

How can technology, which has allowed other sectors to improve education and customer experience, be applied to the complex world of financial advice? Is Robo-Advisory approaching a turning point?

Robo-Advisory, applied in an innovative way, can provide a sufficiently advanced assessment of the customer to anticipate their needs. But this can only be achieved if we integrate it into a truly innovative model.

The wave of innovation in the financial services sector is often slightly exaggerated. Much of the so-called innovation is equivalent to little more than a more practical front-end or the digitisation of a process that was "poor", obtaining a slight improvement, but without reaching great benefits: although it was digitised. A proven model, to assess technological change and its impact on customer behaviour is this simple three-stage test. Each one of them headed by a basic question which, if answered affirmatively, means that innovation at hand is valid and worthwhile.

The first question is whether the customer will notice the change caused by innovation. In the case of Robo-Advisory, it is a customer-oriented change, which transforms the process and the experience from the face-to-face interaction with the customer and the advisor, to a remote contact, through an online platform. The answer is a resounding "yes". In addition to this, the pioneering nature of changing what has always been a highly personal, private interaction based on face-to-face interaction, to a "virtual" interaction, with a service of digitalised financial assessment marks a significant change for the customer that will surely not go unnoticed.



By **Daniel Meere**

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The second question asks if the customer, besides noticing the change produced by the innovative action, will value it. To answer this question, it is best to assess the problems and drawbacks with the current advisory experience. People who seek advice usually do not have much time, are afraid of the unknown and prefer not to share personal details with someone they barely know. The use of Robo-Advisory is much faster both in the time it takes to receive the advice, and in the time to access the service. Being able to quickly provide the service meet the customer's on demand, from where the customer chooses, instead of waiting for an appointment, can be a decisive factor for those who seek this type of service. The fear of the unknown and the concern to share personal data cease to be a barrier, because they are seen as easier to manage through a Robo-Advisory counselling platform.

The third question is whether the customer is willing to pay for this innovation. The answer to this point is more challenging, since one of the main obstacles to providing advice is the cost.

The new regulation in the financial sector entails more transparent advice and one that is less linked to the products, but even so, the cost of personalised advice is prohibitive for most customers. This is also a niche market in which Robo-Advisory has potentially much to offer. The use of advanced analysis, machine learning, data mining and mass customisation can offer highly customised services at commodity prices. We are talking about the democratisation of the financial advisory service, to make these kind of services available to a larger segment of customers in order to make their costs profitable.

For Robo-Advisory to really take hold, the price model will have to be evaluated as a critical factor in the service. In addition, the financial sector will have to open up to an innovative advice model, making sure that it will go through the three fundamental stages that have been mentioned so that its service is the fastest and highly competitive and provides us with a sufficiently advanced evaluation of the customer, in order to know and anticipate their needs.

Robo-Advisory is transforming banks' relationships with their customers

Robo-Advisory is not only a new service for the management of financial assets but is part of a new way of understanding a relationship model with customers, especially with the new generations, and which involves carrying out a strategic reflection against current models.

The pressure of the digital environment entails making strategic decisions that have great operational repercussions in the short term. Independently of the creation of a purely digital environment, banks have to decide whether or not to integrate digitised and automated advice into current channels and business processes.

As a result of the interviews conducted, the group sessions and the surveys obtained, we can summarise the main conclusions of this report in the following points:

1 >

Growth in the implementation of Robo-Advisory models, driven by the use of digital channels, especially by new generation customers.

There are many start-ups that are opting for this model. Although the results achieved so far are not very significant in relative terms, in the long term, these models can gain prominence. The speed of implementation will be determined by the offer of this type of solution by the current market players, in response to changes in the uses and attitudes of current Banking customers.

2 >

The use of Robo-Advisory solutions will allow a greater number of customers to be reached, forcing the design of compatible models for the different segments and customer profiles and, where appropriate, also for all commercial channels.

Robo-Advisory platforms eliminate barriers to cost, time, the access to advanced portfolio management methodologies and the availability of information, thus attracting customers from a wide variety of segments and profiles.

The traditional concept of segmentation with a specific offer and commercial model, for each segment, will give way to a mass customisation commercial model with a single platform, adaptable to the different segments and customer profiles.

3 >

Robo-Advisory, complemented by human interaction, is the main competitive advantage for banking over the traditional branch model.

The possibility of combining the trust factor of the traditional Relationship Manager with the use of more advanced tools can constitute the main competitive advantage of commercial models reliant on bank branches. For this reason, many banks are betting on a hybrid model as part of their omnichannel and optichannel, strategy, taking advantage of each of both approaches.

Conclusions

4 >

The implementation of Robo-Advisory models reduces risk for both customers and banks.

The obligation to follow a process of analysing the customer's profile, together with the visualisation and acceptance of the results of backtesting simulations and future scenarios, together reduce the risk of recommending products not suited to a customer's profile.

5 >

Robo-Advisory solutions can be a more efficient model for customers and banks.

Robo-Advisory solutions for certain customer profiles allow more efficient business processes. The scale of the efficiencies will depend on the ability of customers to self-serve. Financial experience and knowledge, on the one hand, as well as the relative importance of the investment with respect to the total customer wealth on the other, are the factors that determine the degree to which a purely digital model will be used.

6 >

Robo-Advisory solutions as a part of business process automation enable recommendations between the different channels and within the channel itself to be standardised.

The same recommendation between channels and, especially within the channel with a personal advisor, will help to avoid possible discrepancies in commercial recommendations.

7 >

The implementation of the Robo-Advisory model allows better monitoring of the global positions of the customers.

Portfolio management of financial assets should be based on a full view of a customer's positions, avoiding advice that is based on a singular or incomplete view of different assets or financial products.

8 >

There is no general consensus on the best implementation practices to adopt in the future.

The implementation alternatives that are being carried out by the different banks are diverse, and there is no dominant model. However, we can confirm that more than 53% of the surveyed banks highlight that, to implement financial advisory services, the best option is to obtain pre-existing solutions via an acquisition of start-up or with agreements when implementing new solutions.

9 >

The operational implications of the implementation of hybrid solutions are significant.

Hybrid models are the current favoured models and although it constitutes a priori the most appropriate strategic decision, the operational implications are very important. Banks will have to make an effort to adapt the Robo-Advisory methodologies to existing business processes and systems, and to design specific processes for providing personal advice compatible with these methodologies. Once designed, effective implementation is required in all existing business processes. The success of a hybrid approach will depend on Relationship Managers accepting the fact that automated solutions can help them in their relationship and positioning with customers.

Our focus

At Axis Corporate, we have our own approach when dealing with the digitisation of financial advisory services in the transformation processes of banking entities.

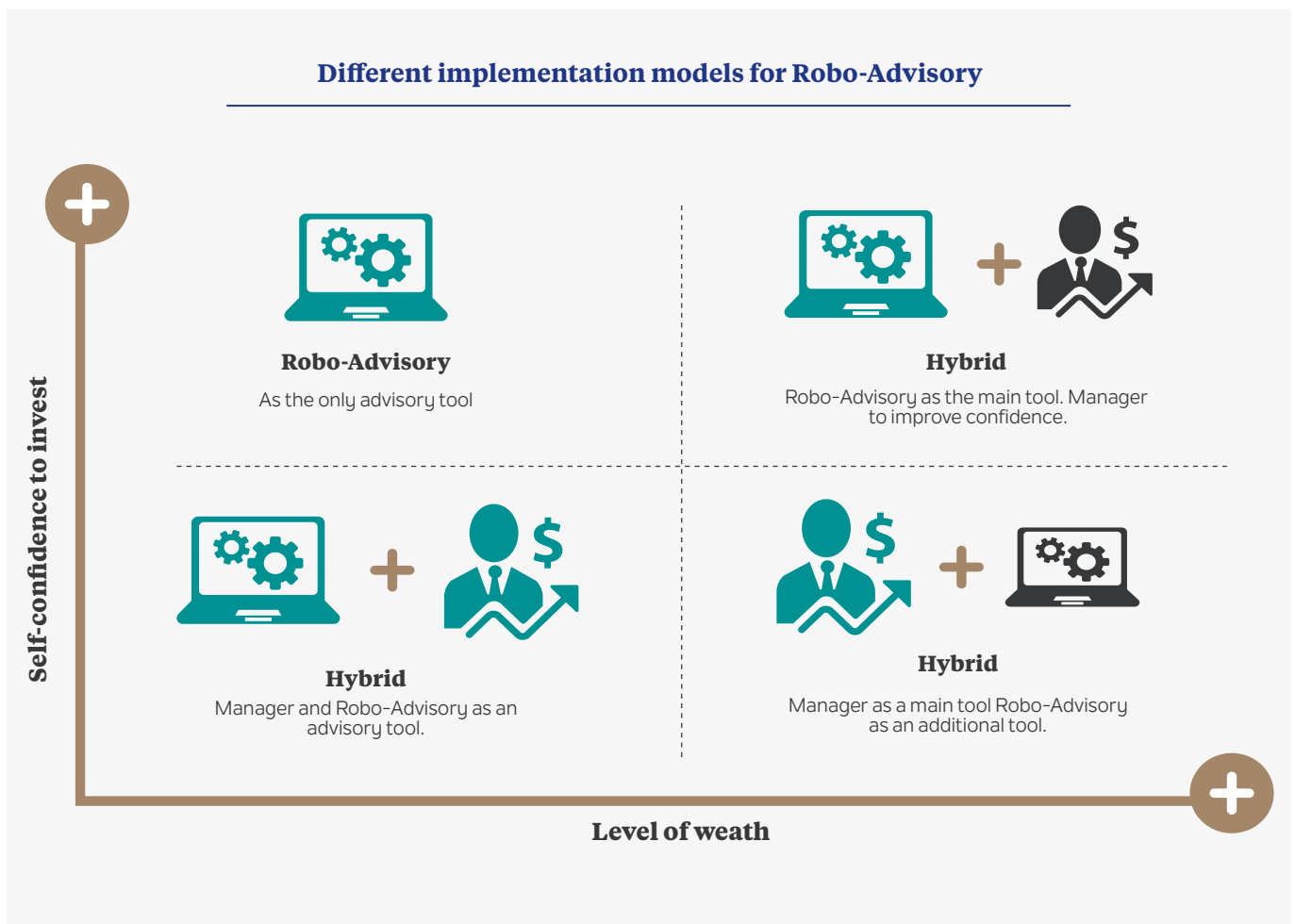
According to our experience and knowledge of the sector, although requiring a substantial short-term operational overhaul, the hybrid model is the most appropriate strategy for the majority of traditional banks.

Pros

- › It makes the omnichannel/optichannel model compatible, improving the customer experience across all channels.
- › It allows the implementation of operational efficiency strategies.
- › Reduces the risk of mis-selling.

Cons

- › The need to adapt the digital Robo-Advisory methodologies to the trading process.
- › Effective implementation is needed across all supporting business processes and systems.



About the report

Methodology

The quantitative results of this study have been obtained from an online survey with a sample of 16 different countries, aimed at business strategy directors, responsible for the digitisation of services and products, and commercial directors of the Retail and SME segment, of leading European financial institutions. Data was obtained during the first quarter of 2017.

These results have been supplemented with personal interviews that have taken place in parallel with the implementation of online surveys. To obtain qualitative information to understand the main trends of retail banking and SMEs before the digitisation of financial services.

In addition to these sources, three online discussion sessions were also organised (Think Tanks), inviting different Executives from the financial sector from around the world and also representatives of Fintechs, who contributed their opinion and experience to indicate the main trends and strategies of the sector before this transformation process.

The report has been further expanded by opinion articles that convey the vision of our experts.

About Axis Corporate



We are an international management consulting firm dedicated to improving companies' business results. We enhance enterprise performance from strategy, to business model definition, through to operational impact.

Axis Corporate helps clients to deliver value through Regulation, Transformation and Innovation initiatives. Together we define the key business issues and deliver solutions with lasting results.

Axis Corporate was founded in 2005 in Barcelona as a consulting firm that accompanied clients in business transformation projects. Today, Axis Corporate is a team of over 200 professionals located in New York, Boston, London, Barcelona, Madrid, Frankfurt and São Paulo.

For more information
www.axiscorporate.com

About Efma



As a global non-profit organization, Efma brings together more than 3,300 financial services companies from more than 130 countries. With a membership base consisting of almost a third of all major retail banks worldwide, Efma has proven to be a valuable resource for the global industry, offering its members exclusive access to a wealth of resources, databases, studies, articles, news and publications. Efma also offers numerous networking opportunities through working groups, webinars and international meetings.

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