Money Talks

# Robo-Advice: what our customers really think

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# In this report

## Introduction

# What is Robo-Advice?

**Robo-Advice is the term adopted by the FS industry to describe online advice services that minimise human decision-making in favour of algorithm-generated responses eg for investment advice.**

Leveraging cost savings in terms of manpower, firms offering this service hope to open up advice to customer segments who would not typically consider, or be able to afford, traditional financial advice services.

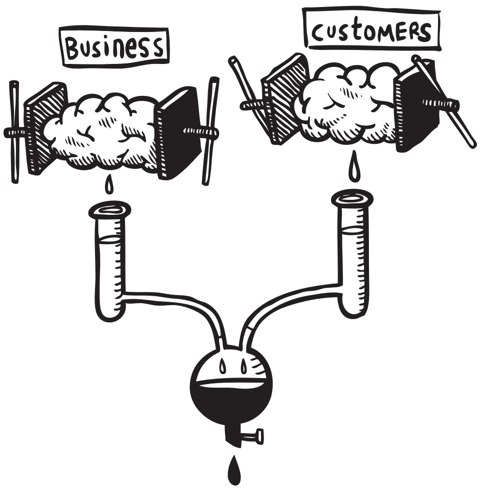
In addition, Robo-Advice is also easier to access than traditional face-to-face services and delivers the results in a way which is often more engaging. This may also add to the appeal for some.

### The aim of this report

Having explored the impact of Robo-Advice from an industry perspective in a previous Space Money Talks debate, we wanted to assess the awareness and attitudes of customers towards this new kind of service, and what impact it's having amongst current and potential investors. How do people approach decisions about financial planning and investment? How do they feel about using a Robo-Advice service?

We ran an in-depth online survey in the UK and conducted a series of 30-minute interviews to explore the subject in more depth. We cross-referenced our learnings with the Financial Advice Market Review (FAMR) report (commissioned jointly by the UK Treasury and the FCA), and our own Money Talks industry debate.

This document explores the key findings from the research and outlines our views on the opportunities we believe Robo-Advice offers both for customers and for FS firms providing this service.

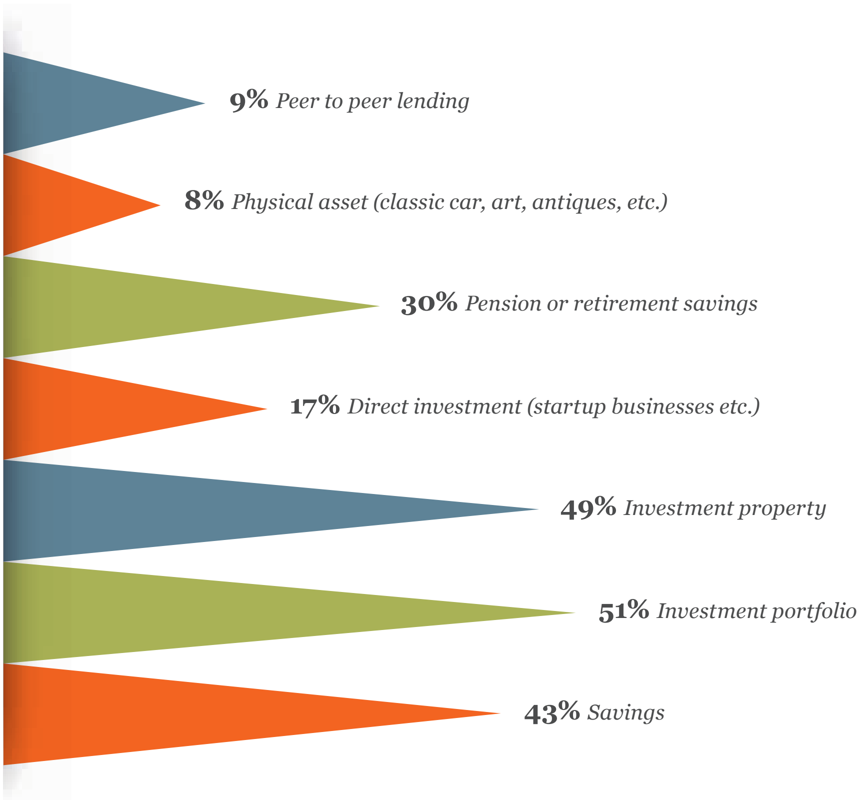


# Consumer attitudes to investing

**We asked current investors and non-investors about their habits and attitudes towards investing, and financial advice. We also gave them a hypothetical scenario where they had £50,000 to invest as they pleased.**

The results revealed a somewhat under-informed and conservative attitude, with some predictable UK centric traits on show: a bias towards property as a lucrative and safe investment, and a general scepticism about the banking and finance industry.

Q: Imagine you have £50,000 to invest, not to spend or use for reducing debt. What types of investment would you choose?*




### Preference for investment types

When it comes to making decisions about where to invest, the prevailing preference in the UK seems to be towards investments which are seen as ‘tried and tested’. The most popular choices are the traditional portfolio of property and savings accounts.

Property in particular was identified by many respondents as being a big part of their long term financial planning – more so than pensions and other retirement-specific products.

* Respondents were able to select multiple investment types

# Attitudes towards financial advice

**Research published in 2014 by Which?[1], into the cost of financial advice, suggests that the up-front cost of advice on an investment of £60,000 ranged between £120 and £1,800; with an average of £1,579. The research was based on a sample of 200 adviser firms.**

Interestingly, we found a substantial difference between this actual cost, and what respondents told us they'd expect to pay. Most would expect to pay less than £250 for advice on their £50,000 investment, and nobody expected to pay more than £1,000 – even those who currently used an IFA. This suggests charges for advice are not well understood, and that, for most consumers, the cost would be considered greater than they'd anticipated.

Automated services on the other hand typically charge an up-front fee between zero and £250. This aligns much more closely with potential investors' expectation of cost. This is clearly an advantage for firms offering an advice service at this price point.

## 91% don't use an IFA

Mirroring the consumer finance market as a whole, a large proportion of our respondents (91%) did not use an IFA to help them manage their finances. Financial advice appears to be seen as a service for the wealthy, and there is a wariness of the value or need for it. The most popular reason given by respondents for not using an IFA was simply that they couldn't afford it because they didn't earn enough. This was followed by the similar perception that advice is too expensive and that the consumers were confident in their ability to manage their own finances.

This broadly aligns with the findings of the FAMR report[2] which notes a low level of consumer demand for advice. The primary reasons for this are cited as: high cost, limited confidence in financial matters amongst consumers, and lack of trust in financial services due to historical mis-selling.

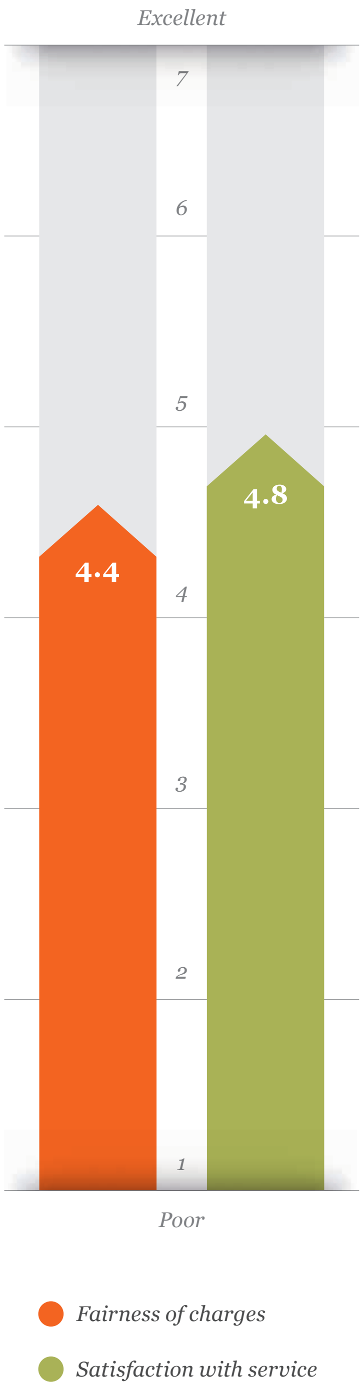
However, our respondents showed a willingness to consider seeking advice at some point in the future: 60% said they would, with only 11% indicating that they would never consider using advice. 29% were unsure.

Q: How much would you expect to pay on this £50,000 investment?

- **59%** *Less than £250*
- **33%** *£250 to £459*
- **8%** *£500 to £ 999*
- **0%** *£1,000 to £2,000*
- **0%** *Above £2,000*

1 Tanya Jefferies, This is Money, *23 January 2014* www.thisismoney.co.uk
2 HM Treasury FAMR Report, *March 2016* p.5-7

# The use and value of advice




**Of those who already use advice there was a relatively positive attitude towards the service they received. On a scale of 1-7, respondents rated fairness of charges at an average of 4.4 and a similar average rating of 4.8 was given to satisfaction with the service they received.**

It's also clear that most individuals who use financial advice don't do so for all their financial transactions. There are some tasks that people feel either more comfortable doing themselves, or simply prefer not to. However, there was no clear pattern to the types of tasks concerned, suggesting that a range of advice services is needed to satisfy potential advice customers.

## Jason

26-35 age group

*"To some extent I would do a lot of research myself, but I would go to somebody who is more knowledgeable on the subject matter so I can gain good sound advice so I can back up my own research that I have conducted."*

## Phil

36-45 age group

*"The structured stuff, the pensions and the ISA are always through an IFA. My investment in my own business, and the other sort of investments via the investment club are not managed by anybody."*

# Automated advice

**The reaction to automated advice and investment was generally positive, though a lack of trust in the service and the people behind it, along with a need for evidence of performance continued to be strong themes.**

## Motivations for seeking advice

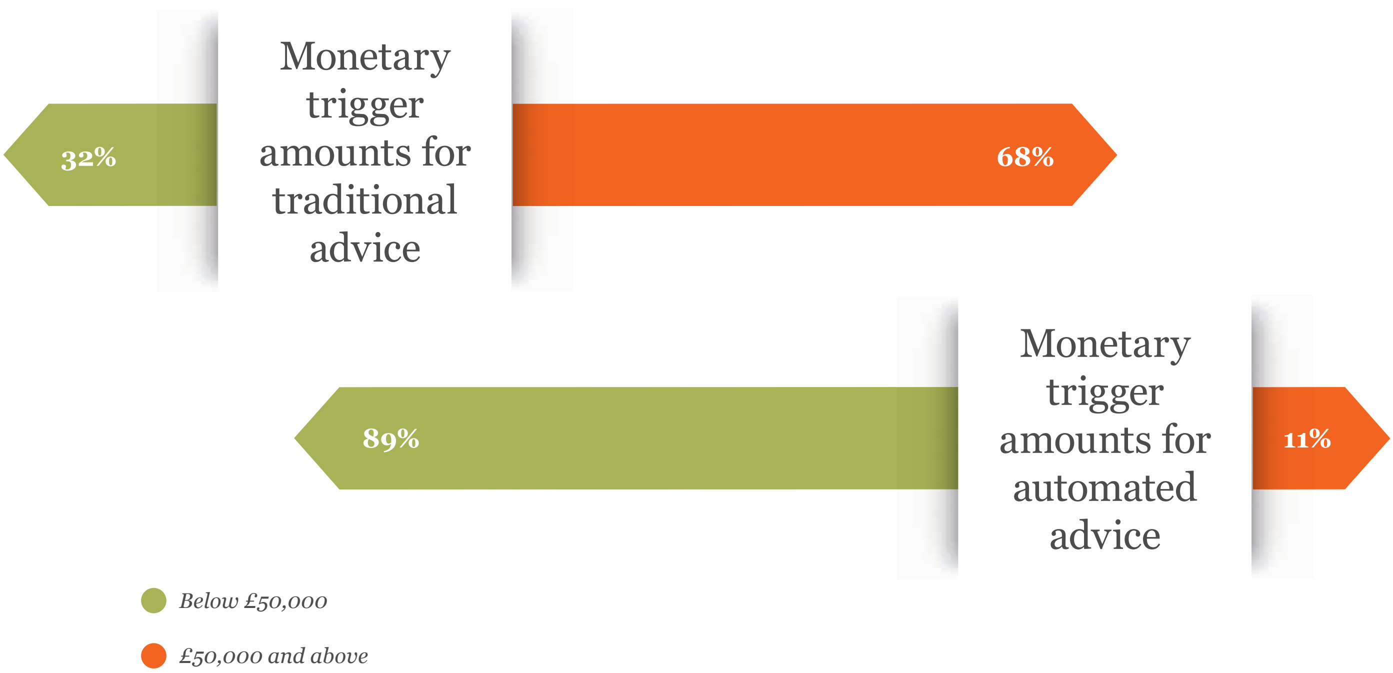
Typically, wealth management firms and IFAs prefer to offer advice only when the investment amount is above a certain threshold. We were therefore keen to understand if there was also a trigger amount for investors, above which they'd consider seeking advice. It appears that this is largely personal to the individual and their confidence.

However £50,000 and £100,000 were popular trigger amounts, with most respondents (68%) giving a figure above £50,000. When considering automated advice services however, these trigger amounts were substantially lower. A large proportion of respondents in this case (89%) gave a figure below £50,000.

## A clear opportunity for Robo-Advice?

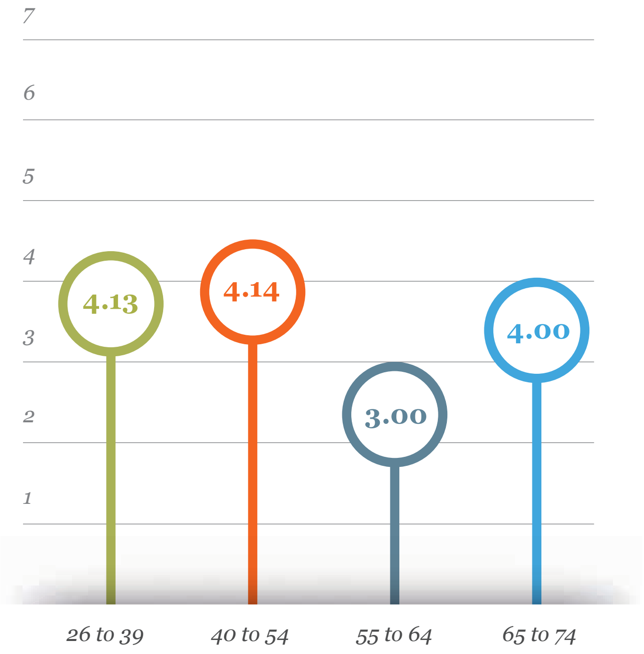
These findings seem to suggest a clear opportunity for firms offering Robo-Advice. Whereas traditional IFA business models make it difficult – if not impossible – to service these lower-value investment clients economically, Robo-Advice is, in principle, a financially viable solution for the companies able to offer it.

When asked how much they'd be prepared to invest in an automated service, many respondents seemed happy to start with smaller amounts and possibly raise them if they saw good results. £5,000 was the most popular amount, then £10,000 and £20,000. This is perhaps unsurprising given the low prevalence of the services and customers' lack of familiarity with them. Hence there is uncertainty about how they would perform and operate.



# How comfortable do people feel about investing in an automated service?

## Comfort with automated advice by age




**We have already seen that there is not a strong demand for traditional financial advice. But how do people feel about automated Robo-Advice? There seemed to be an open-minded outlook in general towards these services, however it's clear that consumer trust and confidence need to be earned.**

The respondents to our survey generally expressed a neutral feeling when asked about their comfort with using a service that provided automated advice. When we break down the results by age, however, we see that the group at or approaching retirement age is the least comfortable with the proposition. However, the smaller sample size in this age group means this can't be considered a conclusive finding.

Asked if it was important to have access to a real person to talk to in addition to the automated service, the results were very much in favour of this: an average of 5.7 on a scale from 1-7.

Roisin
18-25 age group

*"My initial reaction is it's not as reliable as talking to somebody face to face, because when you're face to face you can kind of judge their knowledge and their expertise."*

Jilly
36-45 age group

*"The investment size is critical. So if I got a £50,000 inheritance, I'd definitely want to speak to a human being. Up to £10,000 automated would be absolutely fine."*

# The potential for an automated advice market

**We explored how likely our respondents would be to replace the advice they currently get – or could get – from an IFA with an automated service and found, perhaps unsurprisingly, a very neutral overall response.**

The average answer was 3.4 on a scale of 1-7. However it should be noted that this question did not include any specifics about the level of advice or the cost of the service, and the result perhaps reflects the low level of familiarity with both automated and traditional advice services amongst most consumers.

## Q: I would consider using an automated service over traditional professional financial advice if:*

**53%** *"It is easy to use on my own"*

**42%** *"I know my portfolio is managed by professional advisers"*

**40%** *"I would personalise the funds myself"*

**60%** *"I could be sure it was independent advice"*

**68%** *"I had access to a human adviser when I required it"*

**64%** *"It is cheaper than professional advice"*

**66%** *"I trusted the company"*

Those already using an IFA value the personal relationship this creates. The trust that comes with the relationship will be hard for an automated service to replicate. It seems that few are likely to switch to automated advice just yet. The need for access to a real person to speak to was often talked about, even when automation was an option.

* Respondents were able to select multiple investment types

# The regulatory hurdles

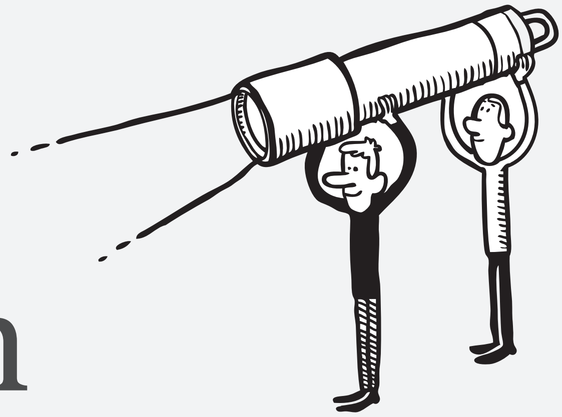
**It's important to recognise that many consider that automated Robo-Advice services are currently held back by the outdated regulatory rules defining 'advice' and how it is given. This means many providers can only offer automated advice on the simpler type of investment products and can't offer the fully-rounded advice service that an IFA can provide.**

Given the neutral reaction our respondents gave to the proposition of using an automated advice service, we wanted to explore their opinions a little further. What would customers value most in such a service? Trust and transparency, human contact, and low costs were the most common responses.

Automated advice services are currently most firmly established in the United States. An article in the UK magazine Moneyweek[3] from June 2016 cites a figure of around $50bn in investments managed with these services. However, this accounts for only 0.0025% of the total $20tn money management market. The market is growing though: the amount invested in automated services rose 210% last year.

The UK already has a number of firms competing in this area and we wanted to gauge how familiar our respondents were with these services. Familiarity with every service we cited was under 10% apart from Nutmeg, which polled 47% awareness. This is likely to be attributable to their media coverage and higher profile marketing campaign.

3 Mischa Frankl-Duval, Moneyweek, *June 2016 issue*



# Conclusion

### Does the proposition offered by existing services match customer needs?

The FAMR report identifies an 'advice gap' in the marketplace. A significant number of consumers, with modest yet significant sums of money to invest, are in need of financial advice. But they are under-served by the traditional advice market, because they fall below the threshold which is profitable for advisers. This gap has grown in recent years, too, thanks to pension freedoms leading more people to extract larger lump sums from their pension pots at retirement.

### Do customers want advice or guidance?

Our findings also suggest – in line with the FAMR report – that many of these customers are somewhat comfortable making decisions. They are therefore simply seeking guidance about their investments. However, they often end up paying for full financial advice because the guidance service doesn't exist within the current financial regulation framework, or simply shy away from advice entirely, believing it to be unsuitable or too expensive for their needs.

The automated advice services seem, in particular, perfectly placed to plug this advice gap. Their lower overheads mean they are able to offer guidance at a much lower cost. It's clear from our findings that, when comparing a financial adviser with Robo-Advice, few customers see automated advice as a replacement, even taking into account the much lower cost.

However, when customers compare the prospect of making their own investment choices (at no cost) with the idea of using Robo-Advice for a minimal cost, the decision is much more clear cut: many would probably choose the second option. This represents a great opportunity for both the firms offering automated advice and their potential customers.

# Who could benefit from automated advice?

**18-35** Younger people in the 18-35 age bracket seem to be mostly seeking guidance. They don't have much spare income, but many are interested in how they can plan and save for the long term, and how they can get on the property ladder more quickly by building up a lump sum for a deposit. They aren't confident in their own financial knowledge but they're willing to try an automated service as long as they can speak to someone when they don't understand something.

**36-55** Those in the 36-55 bracket are the most affluent. They're also are the most likely to be traditional financial advice customers who are unlikely to switch. However, those with a higher confidence in their own financial knowledge – who see advice as useful but expensive – may be willing to commit small amounts into automated advice services. This usage might grow over time if their experience with it yields positive results and their knowledge increases.

**55+** Older people in the 55+ bracket, who are retired or about to retire, have potentially the most to gain from automated advice. We know the advice market is small and yet the number of people with modest yet significant lump sums from their pension pots is large. Which means many people who currently don't seek traditional advice because they are unwilling or put off by the cost, could stand to benefit greatly by spending a small amount on an automated advice. Especially when compared against the risk of attempting to make their own investment choices.

## How can automated advice services improve?

The potential need for access to a real person was a strong and recurrent theme in our research amongst those who would consider automated advice. But this doesn't mean they expect their portfolios to be managed by professional advisers. Some people expect to need technical support or general guidance, but they are willing to do some of the work themselves.

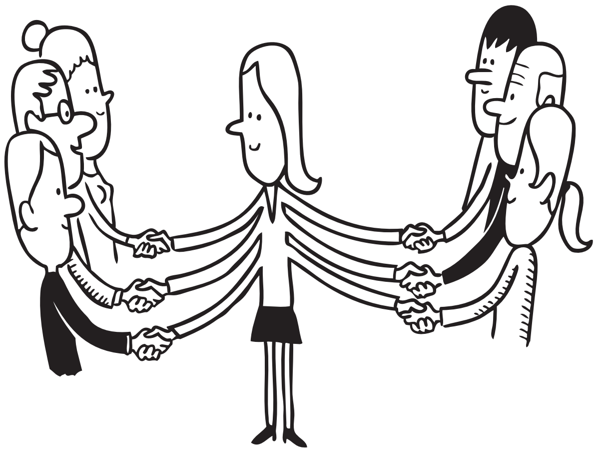
Therefore, in order to gain potential customers' trust, firms providing automated advice should ensure they showcase the talent of the people behind the machine, and provide as much of a personalised human advice service as possible within the constraints of regulatory rules.

## How should Robo-Advice companies communicate their proposition?

We saw differences in the motivations of people at different life stages and how they approach their financial decisions. For example, those past retirement age tend to have higher confidence in their financial knowledge.

Although their motivation for investing or saving is understandably entirely different – with younger people looking to invest for the future but with limited means, and older people looking for ways to make their existing capital give them an income – the firms offering automated advice currently pitch their services in a fairly traditional way at the established investment market.

## A more tailored approach?



We believe there may be an opportunity for firms to tailor their marketing and sales propositions to people at different life stages. This could result in simpler, better-targeted advice and products.

For example, the Lifetime ISA available from April 2017 will be only appropriate for people under 40. On the other hand, an investment in a peer-to-peer lending service may be appropriate for someone who is retired and looking to make a shorter-term investment to supplement their income.

The number of automated investment and advice services available is growing quickly. Our research suggests that they may well be able to fill the vacuum in the advice market which has opened up. However, consumer awareness of these services is currently very low and trust will need to be earned. The rise of so-called Artificial Intelligence, based on machine learning in consumer technology developed by the likes of Google and Apple, suggests that Robo-Advice services will become more sophisticated and more accurate over time. It's happening organically for consumers, which means we could well see confidence and trust levels in these services start to grow over the next couple of years.

# Money Talks is hosted by Space, a marketing and technology agency with over 10 years' experience of working solely in the financial services sector.

The agency was formed when an IFA and a Creative Director joined forces to realise their idea: to bring together industry, technical and creative brains in order to help the financial services industry build more rewarding relationships with their customers.

Today we have over 30 in the team and we've built everything from underwriting engines to wealth management platforms and from advertising campaigns to global brands.

## Our areas of key expertise

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