The Complete Guide to Embarking on a Digital Financial Advice Process

Contents

Introduction

The FCA reported that despite three-quarters of consumers indicating they would not be comfortable managing their investments without support from an expert or other guidance, only 8% of the population took advice in 2022. This reinforces the need to modernise the financial advice process, to make meaningful financial advice accessible for more consumers.

When deciding to embark on a digital financial advice transformation journey for your company, it's difficult to know all the steps and considerations involved to successfully implement the solution, which is why we have created this guide.

When implementing a digital and/or hybrid financial advice process, the key areas for identifying the correct solution for you, are:

- What client journeys do you want to provide?
- What are your clients' financial needs that you want to support?
- How do you plan to create the solution - build/buy or rent?
- What other systems need to be connected?
- What other core features are needed, such as forecasting support, regulatory permissions and management information?

Journey
What customer journeys do you want to provide?

Needs
What are your customer's financial needs?

Build
How do you plan to create a solution?

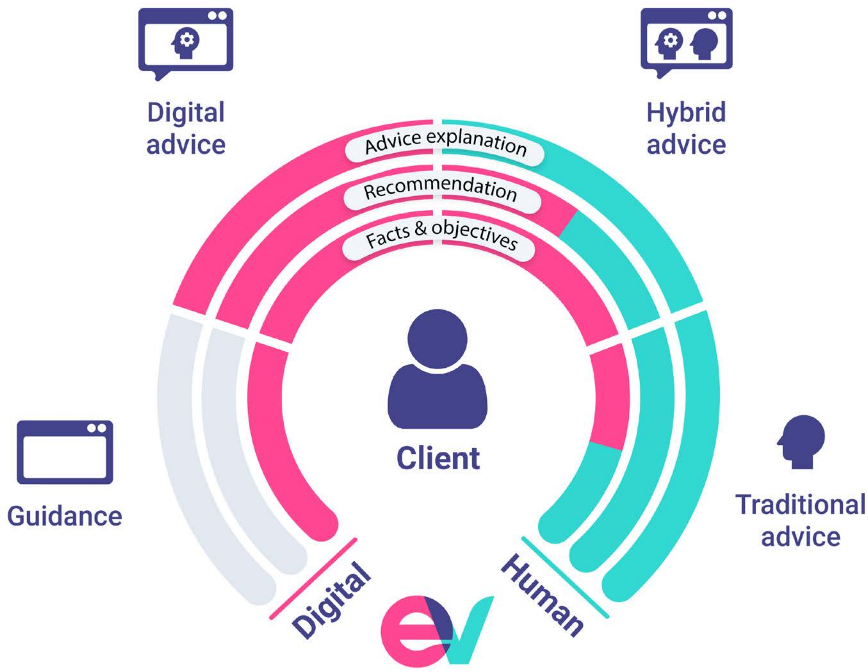
Integration
What other systems need to be connected?

Fundamentals
What core requirements must be included?

Our handy guide outlines the key considerations and steps you will need to take on the journey, which will help you understand what is required to begin your digital and hybrid financial advice process journey.

Considerations you need to make when first setting out on your digital and hybrid transformation journey

When embarking on your digital and hybrid advice transformation journey, several key considerations are vital in determining the success of your transition to providing digital and hybrid financial advice within your organisation.



What client journeys do you want to provide?

Firstly, it's important to determine how you want to support your clients and which combination of solutions (guidance, digital advice, hybrid advice and traditional advice) you will need to implement. For instance, do you want to extend your guidance service to offer digital advice, or would you like to extend your traditional advice to include an element of digital?

When deciding on the client journeys you want to provide, it's important to think about the following:

- What transition between these solutions are needed?
- What handoff process is required between them?
- How much data is needed to be transferred in the process?

Understand what can and can't be automated so that your advisers are enabled to support the advice in the best way. This could mean, for example, that a simplified version of a centralised investment proposition is used. This will enable you to effectively develop your processes and ensure you can provide your clients with a smooth hybrid journey that gives them the right level of advice when needed.

What are your clients' financial needs you want to support?

It's important to understand your clients' needs that you want to support to choose the correct solution for your organisation. With a standard automated advice solution, you can cover your clients' simple financial advice needs. However, if you would like to cover more complex advice needs, you'll need to look for a hybrid advice solution and offer integrations with a traditional human adviser. You may also need to consider third-party integrations around other financial needs. For example, a client's Environmental, Social and Governance (ESG) preferences.

By considering these key questions your clients may have about their financial needs, you will determine whether a standard advice solution will be sufficient for your business or if your solution will need to cover more advanced financial advice needs.

Some key questions and needs of your clients to cover could be, for example, any of the following:

Investments, how can I…

- Invest to achieve returns?
- Invest for long-term growth?
- Check my progress towards a goal?
- Review the suitability of my investment?
- Invest a one-off lump sum?
- Invest for my business or organisation?

Saving for retirement, how can I…

- Know how much to save for retirement?
- Consolidate my DC pensions?
- Check if my retirement is on track?
- Review the suitability of my investment choices?
- Check if I'm going to pay lifetime allowance tax?

At (and during retirement), how can I…

- Use my savings in retirement?
- Use my tax-free cash early?
- Take income in retirement?
- Minimise the tax I pay?
- Check the suitability of my investments?
- Know when to buy an annuity?

Protection, how can I…

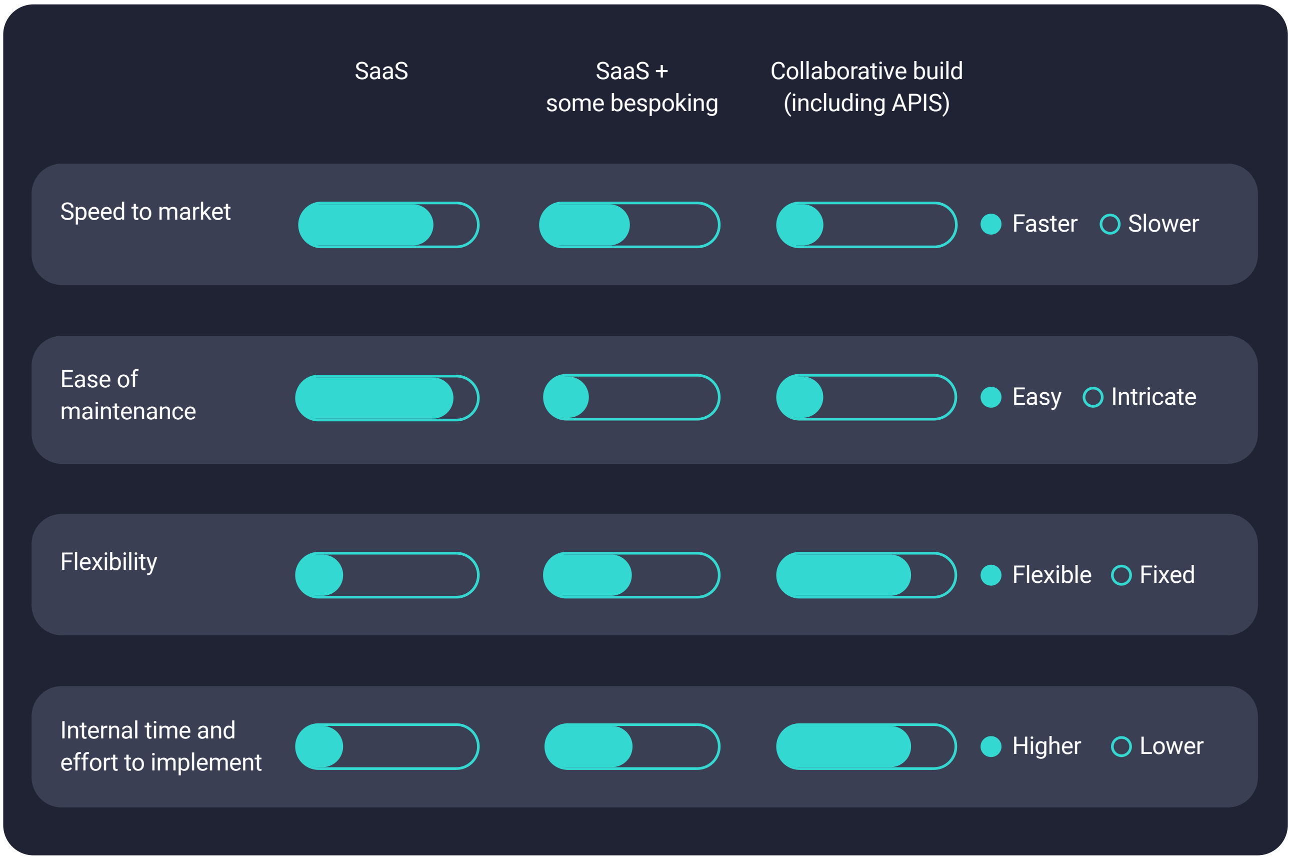
- Know how much life cover my family will need?
- Know what sort of life cover I need to cover my mortgage?
- Get the right income protection?
- Check if my protection is still enough?
- Protect my business?

The different routes to building the solution

There are various routes you can take to building a digital and hybrid financial advice solution depending on the most appropriate one for your organisation.

Some key questions to help you decide the best route to building the solution are as follows:

- **Do you have your own internal team and want to take control of the user interface yourself?** If you have an internal team, having a clear idea of your team's ability to take control of the user interface will help you to decide whether it is necessary for the solution provider to manage the user interface or not.
- **Do you want to build using components and APIs from a third party to help deliver the solution more quickly, whilst retaining control over the front end?** Consider if it is worth building the solution using components and APIs from a third party to deliver the solution more quickly, with less maintenance effort.
- **Do you need a software as a service (SaaS) solution that is configurable within your own parameters?** If your solution needs can be met with a configurable software as a service solution, this can be quicker to implement and cheaper. However, this approach will not be as flexible or controllable.



Additional considerations:

- **Should user-interfaces be designed for mobile devices first?** Designing for the smallest screens first, and then working your way up empowers designers to focus on the core functions of their solution. A recent statista report highlighted the acceleration of individuals using mobile banking apps with the example of eBank Revolut growing from 1.5 million customers in 2018, to 18 million in 2022. This reinforces changing consumer behaviors and the significance of mobile first system design.
- **Should a "buy-before-make" policy be adopted, combined with in-house development only for integration/custom in-house financial planning solution via API or an off-the-shelf SaaS solution?** Depending on how advanced you need the solution to be, it may be worth developing a custom financial planning solution via API to ensure the solution will meet your clients' advice needs now and in the future.
- **What else needs to be integrated with third parties to provide a full service/wide-reaching service?** It is important to consider which areas need to be integrated with third parties to ensure the solution has all the capabilities for your organisation.

Whatever route you take when building your digital financial advice solution, it is important to carefully evaluate your business needs and choose the most appropriate route to ensure the solution meets your business's specific needs and requirements.

> **"A recent statista report highlighted the acceleration of individuals using mobile banking apps with the example of eBank Revolut growing from 1.5 million customers in 2018, to 18 million in 2022."**

How will it integrate with existing systems and tools

The digital or hybrid advice solution must integrate **seamlessly with your existing technology stacks** to avoid a costlier, more detailed network of channels to manage, increasing the complexity of working practices. The solution must smoothly integrate into your workflows and processes across your technology platforms, data collection tools, guidance and advice integrations, and investment platforms.

Some key questions to help you consider how the solution will integrate with your existing solutions and tools are:

- **Is single Sign-on (SSO) required to ensure security and seamless transition for users?** This will provide a secure and seamless transition for a digital financial advice process by allowing users to access multiple systems with a single set of login credentials.
- **What back office data may be available already or be required to be updated from the system?** This will allow the platform to accurately assess a user's financial situation and provide personalised, relevant advice.
- **What other integrations might be needed?** These include ID&V, vulnerability psychometric questionnaires, payment facilities, report writing, tolerance to loss, pension and asset aggregation.
- **Will there be a need for a single quotations API?** This will depend on the illustrations and quotations needed to be sent and received throughout the journey.

Review what tools could be consolidated/reduced or processes that could be aided by technology

Hybrid advice can successfully handle repetitive administrative processes, which can free up advisers' time to carry out more valuable tasks.

Several tools and processes could be consolidated or automated in an automated financial advice process such as:

1. **Portfolio management**: Automated investment management tools can help create, manage and rebalance a portfolio of investments based on a client's risk tolerance and financial goals.
2. **Risk assessment**: Automated risk assessment tools can help to identify a client's risk profile and recommend investments that align with their risk tolerance.
3. **Financial planning**: Automated financial planning tools can help to create a customised financial plan based on a client's income, expenses, and goals.
4. **Tax optimisation**: Automated tax optimisation tools can help to identify tax-efficient investment strategies and minimise the impact of taxes on a client's portfolio.
5. **Compliance and regulatory checks**: Automated compliance and regulatory checks can help ensure that the recommended advice and investments comply with all relevant laws and regulations.
6. **Performance monitoring**: Automated performance monitoring tools can help track the portfolio's performance and identify improvement opportunities.
7. **Client onboarding and account management**: Automated client onboarding and account management tools can streamline opening new accounts and managing existing ones.
8. **Communication and reporting**: Automated tools for communication and reporting can make it easy for clients to access their financial information and provide regular updates on their investments.

Understanding how technology can aid in your organisation's financial advice process can help you identify key areas that should be automated, helping you promote efficiency throughout your firm, leading to better client investment outcomes.

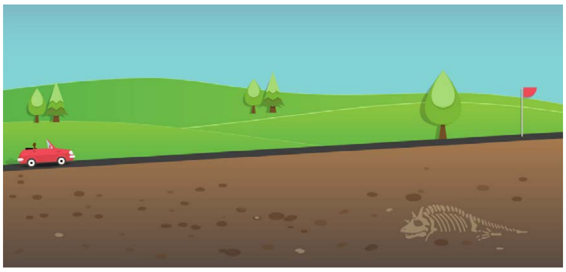
What forecast method will the digital tech use?

Another key consideration is whether the financial advice technology algorithm should use a **deterministic approach or a stochastic approach**. This will depend on the methodology you would like to underpin your advice service with.

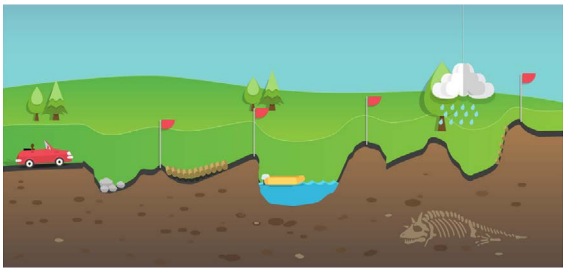
The deterministic approach ensures the algorithm focuses only on the returns you might get, which can be useful for financial advice applications where consistency and predictability are important, such as in compliance or regulatory contexts.

On the other hand, a **stochastic approach incorporates randomness or probability into its decision-making process**. It's useful for all financial advice applications where the future is uncertain and there is a need to consider multiple possible outcomes. This enables the algorithm to personalise risk and reward for the client by incorporating information about an individual's unique circumstances and preferences into the forecasting process.

Determining your specific goals when embarking on a digital financial advice process will help you decide what logic the digital tech should use.



Deterministic: the simple assumption of average returns over time.



Stochastic: the reality of ever changing world events over time.

Costs

When embarking on a digital financial advice process, there are some standard cost elements you will need to account for. Cost varies, and some areas are standard that you'll need to account for in general. One-off fees to consider:

- **Business requirements scoping** - Do you need an end-to-end strategy implemented from guidance to traditional or do you need just the process from hybrid to traditional?
- **Build & configuration of Digital Advice journeys to support new business, top-ups and reviews** - Depending on how extensive your journeys will be, you will have more or less complex configuration needs.
- **Integrations** - Integration costs will vary depending on whether you will build the solution in-house or through an API.
- **Infrastructure** - Costs vary based on the complexity and scope of the digital financial advice process and the specific tools and technologies used.
- **Training** - Depending on the solution's complexity, more extensive training could be required.

Implementation and development resource fees:

- **Developer** - The developer plays a critical role in creating a digital financial advice solution that provides accurate, valuable advice to end users while also meeting the technical and business requirements of the project.
- **Designer** - The designer's role in creating a digital financial advice solution is critical to ensuring that the solution is user-friendly, accessible, and aesthetically pleasing.
- **Testing** - The role of testing in creating a digital financial advice solution is critical to ensuring that the solution is functional, accurate, and meets the needs of the end users.
- **Actuarial configuration** - The actuarial configuration team is responsible for configuring the complex algorithms and models that power the financial advice engine of the solution.
- **Technical configuration** - The technical configuration team is responsible for configuring the underlying technical components of the solution, such as the software, databases, servers, and networking infrastructure.
- **Systems Architecture** - The role of systems architecture in creating a digital financial advice solution is critical to ensuring that the solution is scalable, secure, and meets the business and technical requirements.

Additional elements you may like your solution to include that would impact the cost:

- **Open Banking** - This can provide expenses and insights and could be combined with other financial wellness solutions beyond just providing automated advice, encouraging the clients to remain within the Openwork ecosystem.
- **ESG questionnaire** - This is used to identify the choice and proportion of ESG funds to use within the recommendation and provide education on sustainable investing.
- **Insights and engagement** - The aim is to foster a sense of joy and humanise the experience with playful and personalised interaction. Designs are about clarity, focus and connecting with real people.
- **Identification and Verification (ID&V) check**s - Do you need an integration to SmartSearch or another similar solution that can provide an instant online ID&V solution to ensure that your clients are identified at the start of each advice session.
- **Identifying other advice needs** - A core vulnerability and a financial triage questionnaire are included in the core solution. Should the solution be able to identify whether other advice needs might not be covered.
- **Fund risk ratings** - This provides a consistent risk assessment method for both automated advice and any bespoke portfolio set up by the advisers during full advice.
- **Escrow** - Is there an escrow service that allows you to have the code placed into a third-party escrow account in the unlikely event that the solution provider cannot continue to provide the services.

Although the implementation cost may be high, they are offset by ongoing cost reductions and the ability to scale rapidly. This cost can be compared to adding more advisers, as the advice software can process large amounts of data quickly and accurately, leading to faster and more accurate financial advice for clients. Implementing a digital financial advice solution can also enable you to service more clients and positively impact the cost per adviser, leading to increased profitability per consumer.

How long will it take to implement?

The time it takes to implement an automated financial advice solution can vary depending on a number of factors, such as the complexity of the solution, the size of the financial institution, and the resources available for the implementation. Whilst a simple automated financial advice solution can take several months to implement, a more complex automated financial advice solution, such as one that integrates with other systems or uses advanced machine learning techniques, can take longer to implement.

However, it is important to note that launching the solution in phases is possible. For example, it is possible to use off-the-shelf products to give a quicker time to market, then implement the calculation APIs in the user journey later.

Partnering with an expert

When embarking on your digital financial advice process journey, consider taking the transformation journey with a consultative technology partner that is an expert in this field, as this can help to ensure you make a seamless transition.

Things you should consider about the technology partner:

- **Experience**: A technology partner that is an expert in the field of automated financial advice will have the knowledge and experience necessary to understand the financial institution's unique needs and provide tailored solutions that meet those needs.
- **Knowledge of market and regulations**: The partner's knowledge of the market and regulations is an essential aspect of automated financial advice, as it ensures that the advice being provided is compliant with legal and regulatory requirements and that the solution is aligned with your specific needs. For example, we have specialised expertise in the laws and regulations that affect the financial advice industry.
- **How the partner addresses client engagement in financial planning**: This is vital as it helps to ensure that the advice being provided is tailored to the specific needs and goals of the client. By engaging effectively with clients, the solution can gather information about the client's financial situation, risk tolerance, goals, and use that information to provide personalised advice that is most likely to help them achieve their financial objectives.
- **Case study example**: Having access to a case study example can help you gauge whether the partner has the capabilities to help you achieve your goals based on past results for other clients.

If you decide to partner with an expert, you should look for the above qualities to ensure the technology partner has the right level of knowledge and experience to address your specific needs.

On the other hand, if you decide to work with a consultant to source the best technology partner for your needs, the consultant should look for these values in the fintech vendor they recommend to ensure they source the most appropriate vendor for your organisation:

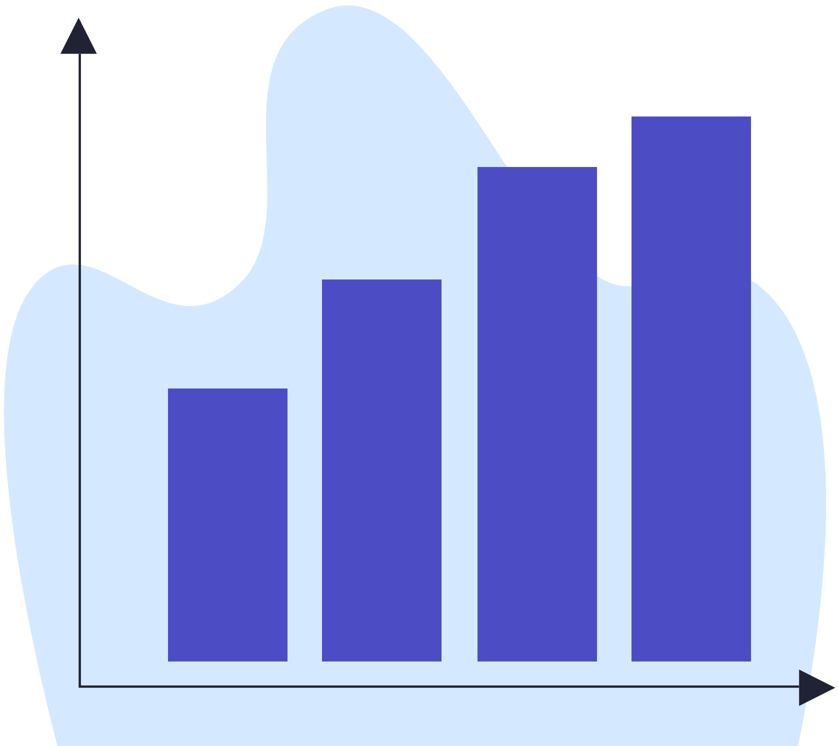
Scalability

Scalability is important for an automated financial advice solution because it enables the solution to handle a growing number of clients and transactions, it is cost-efficient, it allows for flexibility, and it allows for adaptability, giving you a competitive advantage over other companies in the market.

Some key benefits of selecting a scalable, automated financial advice solution include:

- **Growth potential**: Scalability allows a financial advice solution to handle increasing clients and transactions as the business grows. Without scalability, a solution may struggle to keep up with demand, leading to delays, errors, and client dissatisfaction.
- **Cost efficiency**: Scalable solutions are more cost-efficient in the long run because they can handle a large number of clients and transactions with minimal additional costs. This is particularly important for financial advice solutions, which may have high fixed costs associated with development, compliance and licensing.
- **Flexibility & Adaptability**: Scalability allows a financial advice solution to be flexible and adapt to changing market conditions and client needs, such as supporting different types of clients or providing different types of financial advice.
- **Expand upon advice offering**: By looking for a scalable solution, this ensures that whatever level of advice you decide upon initially, you will be able to easily expand and build upon this level to advance your advice capabilities.

Overall, selecting a scalable solution will ensure that you are not constrained by the solution you select, helping to future-proof the solution; ensuring you can effectively meet client needs and demand for the solution.



Steps you will need to take within the journey

From getting the initial buy-in, to scoping out various elements to ensure that your digital and hybrid financial advice process will meet your business needs, there are various steps you must take to ensure you can implement an effective solution. This section will outline the key steps you will need to take within the process, giving you a clear understanding of what is required when embarking on a digital financial advice process.

Step 1: Get buy-in

The first step is getting other stakeholders on board with the investment of the digital advice solution reinforcing the value of implementing the solution for the organisation.

Outline how a digitalised advice journey can provide value to help you hit goals:

- **Close the advice gap** - Implementing the automated financial advice solution will enable you to expand your market share by providing affordable advice to an audience that otherwise would not be reached.
- **Improved customer experience** - Implementing the hybrid financial advice solution will ensure customers will be satisfied and less likely to turn to a competitor due to meeting their customer advice needs more effectively.
- **Improve process efficiency** - Implementing digital financial advice will significantly reduce admin time, allowing advisors to handle more clients.
- **Improve customer churn** - Engaging with your clients at a younger age will enable you to be there throughout their financial life triggers.
- **Demonstrate that the market is ready** - A recent financial times article highlighted that 13 million people in the UK are in the “advice gap”, unable or unwilling to pay the high fees of financial advisory services. This reinforces the need for automated financial advice in the market, and that the market is ready.

By reinforcing the above points, will help you to promote your case to organisational stakeholders that they should invest in embarking on a digital transformation of the advice journey.

> **A recent financial times article highlighted that 13 million people in the UK are in the “advice gap”, unable or unwilling to pay the high fees of financial advisory services.**

Step 2: Define objectives

When embarking on a digital financial advice solution, it's important to decide how you will define the success of the implementation, as this will help clarify the goals and purpose of the process.

Some objectives could be:

- Increasing client per advisers ratio
- Reaching a new market share
- Increased client satisfaction

Across the industry, FCA research has discovered that the uptake of robo-advice (i.e. automated financial advice and investment management services using algorithms and technology, without the direct involvement of human financial advisors) has been limited and that customers are still looking for that face-to-face element. Therefore firms should be conscious that they won't be able to meet the above objectives with robo- advice alone and that to do so, they need an omnichannel approach. An omnichannel approach ensures that the right advice channel is used at the right time, ensuring that consumers receive the advice they need when they need it.

Step 3: Value proposition to clients

At the core of a hybrid offering is the critical step of clearly defining and communicating the value proposition to clients, which requires making difficult choices regarding client segmentation and pricing, for example. It is vital to stress that the primary role of the digital platform should be to improve on-demand interaction and client access to quality advice, not to save money for the financial institution.

When communicating the value proposition to clients, it's vital to stress that automated financial advice resolves a longstanding market challenge —providing low-cost, added-value investment advisory services to consumers.

Client and adviser input will be essential to developing and refining the value propositions. Pilots and tests are major accelerants, allowing firms to experiment and learn from advisers and clients before broadly deploying solutions.

> **It is vital to stress that the primary role of the digital platform should be to improve on-demand interaction and client access to quality advice, not to save money for the financial institution.**

Step 4: Request for proposal (RFP) brief for your partnership

The next step you'll need to take within the journey to embark on a digital financial advice process is submitting your request for a proposal brief for your partnership, as this will both clarify expectations and goals for both parties and provide a reference for future evaluations and negotiations.

If you have the right resources in your internal procurement team, you'll need to outline your proposal to partner with an expert in this field. However, if you don't have the right resources in your internal procurement team, it will be necessary to use an experienced consultant to help you outline your proposal.

The fintech vendor can then work with the consultant to craft the most comprehensive proposal possible.

Step 5: Important areas to scope for effective solution implementation

Once you have decided to partner with a solution vendor, you will need to scope out all the areas listed below to effectively implement the solution. If possible, we recommend scoping out these elements with the technology partner's help, as the partner's expertise in the area will help ensure all areas are fully covered.

The key areas you will need to scope out are the following:

- Business requirements
- Build & Configuration of Digital Advice journeys
- Integrations
- Infrastructure
- Systems Architecture
- Actuarial configuration
- Technical configuration
- Open Banking
- ESG questionnaire
- Insights and engagement
- Identification and Verification (ID&V) checks
- Identifying other advice needs
- Fund risk ratings
- Escrow

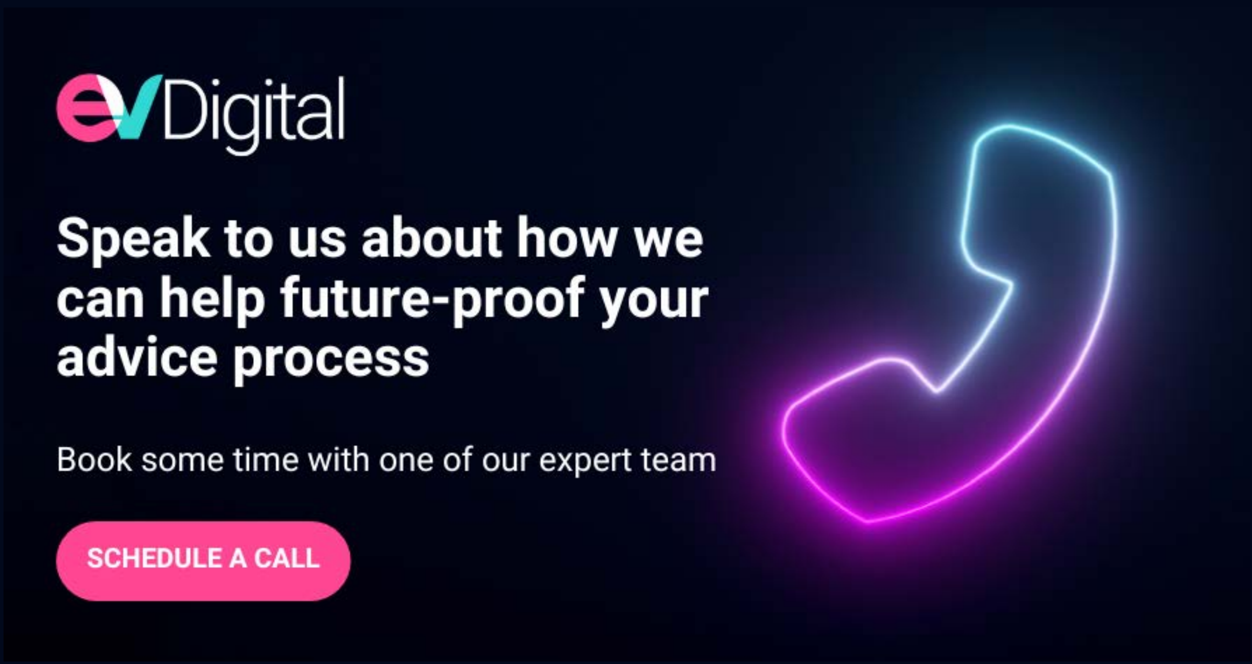
Overall, scoping out the various elements will help to clarify the goals and objectives of the project, identify the resources required, and will help to ensure that the digital financial advice solution is well-defined and optimised for efficiency, leading to improved outcomes for clients.

Summary

As you can see, when embarking on a digital and hybrid financial advice process, there are many aspects to consider around the solution you choose to facilitate it. However, we hope that this guide has provided you with in-depth insight into the key considerations and steps required to successfully implement the right digital financial advice solution for your organisation.

At **EV**, we can help you begin your digital and hybrid advice transformation by outlining the right solution for the investment or retirement advice client journey and financial needs you would like to support. Either through helping you to offer self-serve, fully automated advice through digital advice components such as triaging priorities, fact-finding, objectives and recommendation, suitability reports and attitude to risk questionnaires, or helping you find the right balance between digital, hybrid, and traditional advice.

To do so, we will work with you to carry out the key scoping workshops and outline what areas of the standard solution can be configured to allow you to have control over the solution and cost, such as adjusting vulnerability questions and the use of different products and funds to suit different risk profiles and sustainable investment preferences.



About EV

EV is one of the UK's market-leading digital financial planning solutions providers. We have operated as an independent organisation for over a decade, backed by a further 18 years of financial services consultative experience. We connect and empower our intermediary financial partners with intuitive, customer-centric advice, guidance software, and investment solutions.

We have a history of developing engaging tools that help financial advisers and their clients navigate the complexities of financial markets, ultimately delivering simplified financial planning and enabling clarity over investment options, cash flow forecasting and aligned client risk profiles.

Powered by our proprietary market-leading stochastic asset model, our powerful calculations and strategic multi-asset allocations are used globally across the financial ecosystem by financial advisers, pension and platform providers, asset managers, banks, and building societies, to name but a few.

EV

www.ev.uk

Registered office: Benyon House,
Newbury Business Park,
London Road, Newbury RG14 2PZ

Registered number: 07382500