Hybrid and Digital Advice

Driving Transformational Change, at Last!

April 2023

Contents

"Based on FCA data, we simply do not have enough advisers to support individuals who need help"

1 Foreword

Our previous white paper on this topic was written in 2016 and titled 'Robo Advice – the catalyst for transformational change'. On re-reading the paper, I am left with the impression that, in the seven years that have passed, the financial services industry has moved forward somewhat, but we are yet to start the journey of 'transformational change'.

In 2016, EV was critical of the widespread use of the term 'Robo Advice', which was an ill-defined term that covered a range of propositions – including many that were not even advice.

The table below is reproduced from our 2016 white paper and remains largely unchanged today. It covers the potential range of financial planning support options available to individuals currently.

ROBO ADVICE	ADVICE DELIVERY	COMMENT
Streamlined advice delivered online with no regulated adviser support (digital advice)	Computer Algorithms (signed off by a lead regulated adviser)	The most cost-effective model. Suitable for services targeting more confident investors and only for simple products and goals, e.g. ISA investment.
Streamlined advice delivered online with support from regulated advisers or unregulated individuals (hybrid and digital advice)	Computer Algorithms (signed off by a lead regulated adviser)	Cost-effective and potentially helpful in achieving higher completion rates among less confident investors. Potentially more complex needs can be addressed.
Streamlined advice delivered by an adviser potentially using an online fact find (hybrid advice)	Traditional advice - a blend of online fact find and face-to-face advice creating advice recommendations.	Substantially lower cost than the traditional advice model because much of the work is undertaken by the consumer online. Suitable for the more complex areas of advice.
Self-directed execution only with guidance	No advice	Care must be taken to avoid the guidance being too personal and considered to be regulated advice.

If we ignore the unhelpful term of 'Robo' and put aside self-directed execution-only guidance, which is not advice, we have digitally based advice with varying degrees of automation and human support. Fully digital automated advice and low/no human support can be confined to very simple advice needs, such as the investment of new money in an ISA or general investment account. Looking back to 2016, there were a few examples of this, some of which EV had worked on with its clients. Beyond this, there was very little else.

> **"Since 2016, the number of simple digital advice offerings has grown somewhat. Still, the main and most interesting development has been with hybrid propositions (online plus human interaction) aimed at more complex advice needs. "**

We have observed a marked increase in large financial services brands taking an interest in this part of the sector in the last two years.

However, there is little evidence to date that this interest in hybrid advice has yet begun to drive transformational change. For this to happen, hybrid and digital advice must become fully integrated into financial services providers' customer propositions. Hybrid and digital advice must be positioned between guidance-assisted execution only and traditional advice to enable customers to move seamlessly between these options according to need and preferences. Currently, most of the development activity is focused on hybrid and digital advice as a separate channel or is confined to strategic investments by established brands in start-up D2C digital advice businesses. We are, therefore, only in the 'foothills' of transformational change. This second white paper is focused on where financial services firms need to go next to achieve genuine transformational change, which will enable them to serve more customers and, at the same time, improve the profitability of advice.

Written by
Chet Velani
Managing Director

2 Executive summary

The current advice system works reasonably well for those fortunate to obtain consistent, coherent, holistic advice from a regulated professional financial adviser, usually limited to wealthy individuals who can afford to pay for this service.

For everyone else, managing numerous relationships with different financial institutions and product providers, frequently driven by life events such as changing jobs or buying a house, poses considerable difficulties. In some instances, these interactions involve regulated advice, in others, guidance, and some will be self-directed. This inevitably leads to inconsistency, confusion and sub-optimal financial outcomes. Some consumers are left behind with their finances, going with the flow, making minimal financial decisions about the future, disengaged with the idea of seeking expert help, and probably just hoping for the best.

If, as an industry, we are to help more people take advantage of the benefits of professional advice, there are three areas we need to explore:

- **how to reduce the cost of advice so it's affordable for a wider market, engages more consumers and is taken up by more people;**
- **how an omnichannel approach can enhance the customer experience and, at the same time, enable a firm to optimise the deployment of its human and financial resources to maximum effect; and**
- **how advice providers can progressively increase productivity so that more customers can be served with increasing profitability.**

While these three objectives could be addressed separately, they can be combined and used to reinforce each other. Together they offer the prospect of transformational change with major benefits for the retail financial services industry and its customers.

At the time of EV's last white paper, robo advice dominated the zeitgeist – now it is hybrid advice. Neither term is well defined nor a complete solution. Robo advice was often used for online guidance rather than advice, leading to risk-rated investment solutions with customers self-selecting their risk preference. Today hybrid advice is sometimes used to describe customers completing some elements of the advice process online, e.g. fact finds and risk questionnaires and advisers undertaking the rest of the process. This can be called hybrid advice, but it is hardly new or transformational.

In this white paper, we use the term digital advice, where the **advice and suitability report are automated** and generated by algorithms. At present, this can reliably be used for simple advice and straightforward cases. Combining hybrid and digital advice involves human support to customers during the advice process, the review (and amendment, where necessary) of suitability reports and the presentation of recommendations to customers.

It can be used to deliver more complex advice as it is supported by human advisers so that:

- the advice is reliable and compliant;
- customers receive the reassurance and support they need and have the confidence to implement recommendations; and
- costs are reduced by minimising the 'behind the scenes' work of advisers allowing them to focus their activity on providing an appropriate level of valuable customer support.

Hybrid and digital advice are not a 'one size fits all' proposition. **Every firm will have its views** on, among other things: the mix of human support and digital advice; the order and priority of advice areas to be addressed; and how to integrate a hybrid and digital proposition with traditionally delivered advice.

This last point is important because traditional advice may be identified as more appropriate for some customers in going through a hybrid and digital process. This might occur, for example, where more than one financial need area needs to be addressed simultaneously. Furthermore, some customers going through a hybrid and digital process may decide that traditional advice better meets their ongoing needs. Similarly, customers with access only to guidance may decide that low-cost hybrid and digital advice gives them the comfort they need.

> **An omnichannel approach, offering customers choices over the level of service they receive, can transform the customer experience and help to generate new customers and retain existing ones.**

The seamless transfer of customer data between these omnichannel options will greatly enhance the customer experience and administrative efficiency.

Introducing hybrid and digital advice offers the prospect of transformational change in doing business. Workplace, legacy, single channel, orphan customers, and affinity groups can become sources of new business. **Choices over service levels can be differentiators and sources of competitive advantage**. Hybrid and digital advice can unlock this potential by filling the gap between guidance and traditional advice. Propositions will evolve as the capabilities of the algorithms underpinning digital advice improve and innovative ways of supporting customers through a digital journey are introduced.

This white paper discusses how customer propositions may evolve and, in particular, how artificial intelligence can predict where individual customers may need additional support based on their data, and their progress through a digital journey. AI is improving rapidly, and, in addition to chatbots, voice recognition avatars can be used to answer questions and help customers consider options by linking them to calculation APIs. Understanding and identifying customers' personality types and reflecting these in the visual experience and tone of voice can create strong customer engagement. Personalisation has been shown to work in other direct-to-consumer business apps, and proven techniques can be applied equally well to financial services.

The use of these new technological support solutions and the progressive improvement in advice algorithms will enhance adviser productivity, allow more customers to be accessed and the profitability of advice businesses to be steadily increased. This white paper looks forward to a successful and profitable future for advice businesses.

As a footnote, mention should be made of the recent FCA Consultation Paper on Simplified Advice. While the FCA's proposals are limited, they are nevertheless helpful. In so far as they are relevant to this white paper, the recommendations would enable a hybrid and digital advice process addressing ISA investment to be shortened a small amount, and would reduce the cost of any adviser support that might be required, by reducing the level of qualification required.

3 A word about terminology used

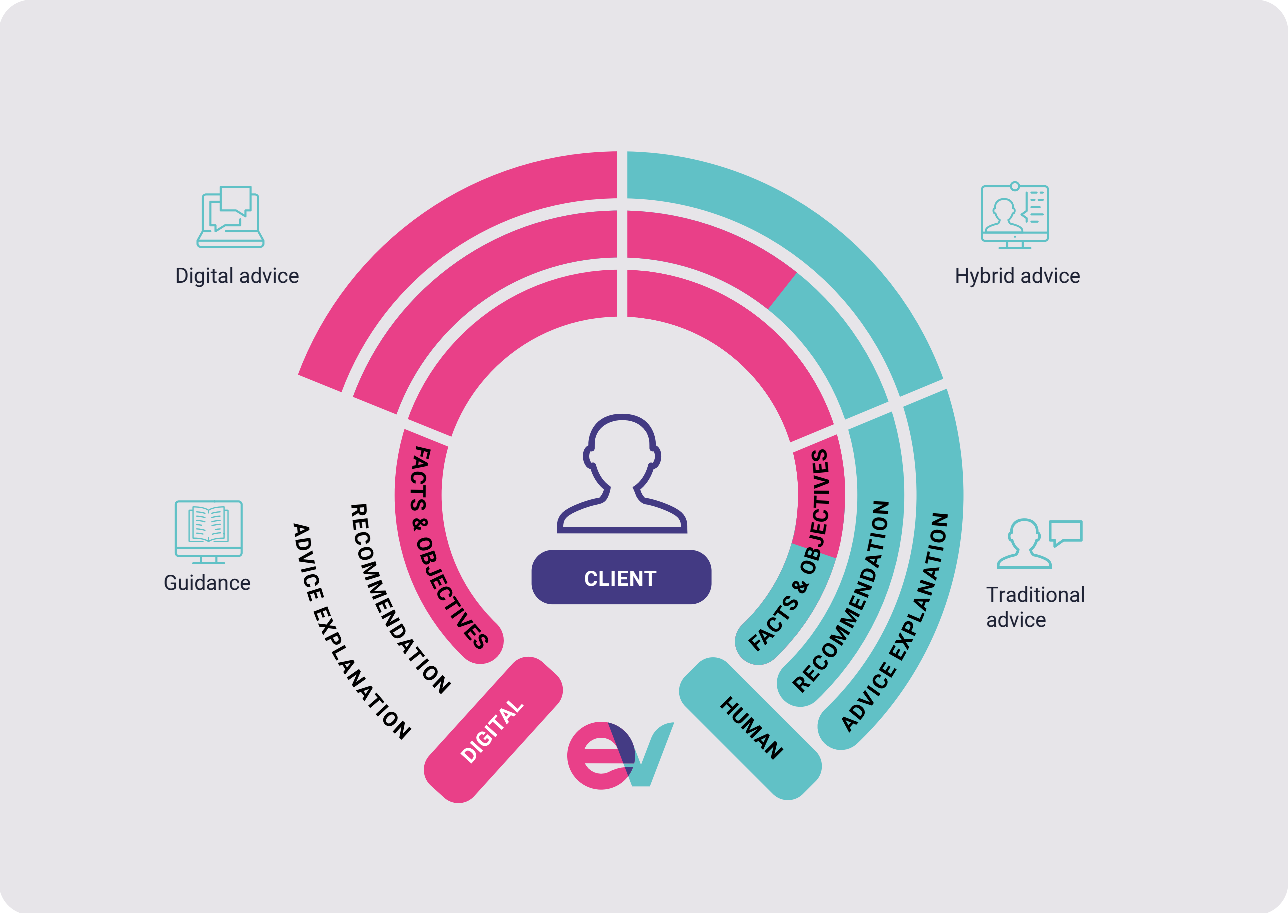
To avoid confusion, side-stepping the variations in terminology that appear in various financial services discussion papers and market commentaries, we define the forms of advice we discuss in the following sections.

Traditional advice – holistic financial advice provided by advice firms to clients who pay for professionally managed financial planning, delivered face-to-face or by video call.

Digital advice – an algorithm is used to provide a recommendation and generate a suitability report for a customer. It can either be used in a completely automated solution or supported by an adviser, in which case it becomes hybrid and digital advice.

Hybrid advice – where advice is provided by a combination of both adviser input and customer interaction in an online system.

We also provide a comprehensive glossary of terms in **Appendix 2**.



4 Transforming the consumer experience

Current situation

Generally, it is fair to say that advice processes today could be more efficient. The lang cat's 2022 'A Fragmented World' paper found that an 'average' firm (if there is such a thing) could be 75% more efficient if their systems spoke to one another. Unfortunately, inefficiency generally adds to cost - a study by IDC Market Research found that companies lose 20% to 30% in revenue yearly owing to inefficiencies. However, the fragmentation of systems is not the only inefficiency, as today, many administrative tasks are undertaken by expensive humans. **A key objective must be to focus financial advisers on high-value-adding activities**; it is here that hybrid and digital advice can substantially contribute to improving productivity. Current advice services work well for the reasonably wealthy clients of advice firms, who value a high level of personal contact. However, less affluent consumers have limited choice over how they interact with financial products, and professional advice can appear too expensive and out of reach.

Consumers typically have a number of different points of contact with financial services providers, and these change during their lifetimes. The first contact may be with a bank to set up a current account. In the workplace, automatic pension enrolment will involve contact with a pension provider via the employer. During working life, with changes in employment, this may very well become several pension providers. A home purchase mortgage will undoubtedly involve a different financial services provider. ISAs may well be purchased online without advice using yet another financial services provider – although, in recent years, some form of digital advice may be provided as part of this.

> "50% of advisers are ages 50 and above "

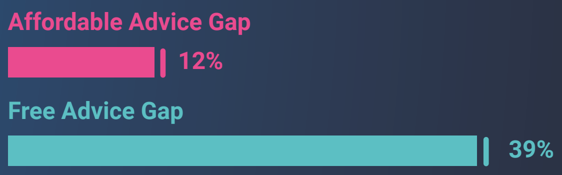
For wealthier people, pulling all these products together into a coherent financial plan with the aid of a financial adviser is easily achievable. For everyone else, however, this is close to mission impossible. And this matters a lot, particularly when planning for retirement, which nowadays is about much more than pensions.

The outcome of this is that consumers end up with many different financial relationships, which tend to be uncoordinated and confusing. As a result, there is no coherent picture of consumers' financial situations – unless they have enough wealth to engage a financial adviser who can advise on all of the financial products and services they have accumulated along the way and, importantly, pull everything together into a plan. A lucky (very small) minority without an adviser may be able to manage these disparate relationships and make good financial decisions. Still, for most there is no help beyond 'guidance', which is limited in its effectiveness. This void is frequently referred to as the 'advice gap'.

Delving into the advice gap

Open Money's 2021 The Advice Gap Report, which focused on British adults, found that approximately 7% of individuals had paid for advice in the previous two years. Of those who had paid for advice, 93% found it helpful, and therefore we can reasonably assume they would likely get advice again. This shows us that where it is taken, advice is generally thought to be useful.

The report also estimated the 'affordable advice gap', where individuals would be willing to pay for advice if cheaper, at six million individuals (or approximately 12% of the UK adult population). The 'free advice gap', which includes individuals who cannot afford advice, sits at 20 million individuals (or 39% of the UK population). That's 26 million adults who only have guidance solutions to support their financial decision-making.



Now combine this with the fact that regulated adviser numbers have been relatively stable or slightly falling over recent years, with approximately 43,000 advisers in place based on FCA data (individuals certified by authorised firms and CF30s). We simply do not have enough advisers to support millions of individuals who need help.

Also, considering that the same data reveals over 50% of advisers are aged 50 and above, the problem is likely to worsen over the coming years.

So, what we have here is a large pool of individuals who need support, and the current method of accessing advice does not work for them. There is an urgent need to help this underserved and large section of society. It is also a fantastic opportunity for firms to access new customers and a large pool of assets. The key to unlocking this opportunity is to reduce the cost of advice.

Addressing customer needs

So, what is the future, and what does transformational change look like? The starting point to resolving this question should be considering what's right for the consumer. The answer comes in two parts, which are related. The first and most obvious is delivering advice at an affordable cost for mass market consumers who are, for the most part, shut out of this service and currently rely on guidance for financial support.

It is doubtful whether the FCA's mooted 'tailored guidance', which would allow regulated firms to provide detailed, personalised information but importantly not a personal recommendation, will be substantially more effective, even if and when it can be provided. In its 2021 Consumer Investments: Strategy and Feedback Statement,

> **the FCA estimated that 8.6m consumers hold more than £10,000 of investible assets in cash, half of whom could potentially benefit from investing.**

At the same time, it was concerned that other consumers are taking on too much risk, finding that almost half (45%) of new self-directed investors are unaware that 'losing some money' is a risk of investing. The problem is that many consumers need clear and personal recommendations to overcome the potential to make poor financial decisions, often due to a lack of confidence or knowledge.

The FCA's Consultation Paper 22/24, published in November 2022, launched a consultation into making financial advice more accessible by making it cheaper and easier for firms to advise consumers on investment in stocks and shares ISAs. The proposal is that there should be a new simplified financial advice regime. This would allow advice on mainstream investments within an ISA wrapper up to the annual ISA limit of, currently £20,000, to be provided using a slightly reduced fact find.

The qualification requirements of advisers giving this limited advice would be reduced, making it cheaper to provide. Currently, investment ISAs are either sold without advice or with digital advice only. The FCA's stated objective is to encourage more consumers to move surplus cash into investments, and it hopes this will be achieved by providing support from advisers. These proposals are welcome but limited, and the main financial services providers who will benefit are likely to be retail banks and firms with access to large existing customer bases.

We have yet to see what else will emerge from the regulator in its review of advice and guidance, and of course, any changes would take time to finalise and could also be subject to primary legislation. The net result could have implications for how product providers approach consumers regarding their personal finances. We can surmise from this initial consultation paper that any change in the advice/guidance boundary is likely to be limited to simple products. In the relatively new world of pension freedoms and the rapid growth of defined contribution pension assets, the number of consumers requiring advice before, at and in retirement is likely to remain huge.

The second aspect to ponder when considering what's right for the consumer is offering them choice over how they interact with financial products and services – an 'omnichannel experience', to use the jargon. This is essentially a consumer-centric approach to doing business, as opposed to the channel-centric approach typical of financial services. Omnichannel offers consumers choice and flexibility over how they access the financial services they need. Hybrid and digital advice are a natural fit and a substantial component of an omnichannel consumer experience. Importantly, it offers a choice of service and price for consumers, as well as the ability for financial service providers to offer substantially differentiated services from one another. The online experience and level of support with a hybrid and digital advice service can vary considerably and as with other industries, can become a major area of competitive advantage.

Implementing the omnichannel approach

Omnichannel puts consumers at the centre and allows them to decide how they wish to interact with financial services providers. They get to choose the channel they want to use. This will depend on cost and their perceived need, at the time, for support with financial decision-making. This, of course, could change as their understanding of their needs evolves or their circumstances change over time. It will depend on the importance of the decision or the perceived value that advice might deliver. There is a need for consumers to be able to move between channels, perhaps because the guidance does not provide answers to questions, or maybe to move from a simple digital advice journey to traditionally delivered advice because the digital system does not address the full scope or complexity of their circumstances. **Moving between channels creates an obvious need for consistency**.

The information input by consumers should ideally move seamlessly with them between channels, and results need to be consistent to avoid confusion. Consumers will lose confidence in the results if they change for no obvious reason between channels.

So, hybrid and digital advice is part of an omnichannel customer proposition that can drive transformational change which can benefit both consumers and advisory firms. We will now look in detail at how to deliver this transformation and how to overcome some of the challenges.

“... hybrid and digital advice is part of an omnichannel customer proposition that can drive transformational change which can benefit both consumers and advisory firms.”

5 Transforming advisers' profitably by improving productivity and reducing costs

The need for affordable advice

Historically, wealth management and the distribution of investment and pension products were focused on both independent and tied advisers, with relatively little business transacted by consumers directly with product providers.

The introduction of new tax-efficient investment vehicles like Personal Equity Plans (PEPs), Self-Invested Pension Plans (SIPPs) and Individual Savings Accounts (ISAs) in the 1980s and 1990s made it easier for people to invest directly. The direct-to-consumer investment market was further spurred on by the Retail Distribution Review, introduced in December 2012. This legislation raised the standard of financial advice by mandating professional qualifications and banning most commission payments. Still, as an unintended consequence, many banks withdrew their tied-advice channels. The cost of advising clients with low investible assets has resulted in financial advice becoming very expensive for most consumers and has left many advice firms in a scenario where only the more wealthy clients are profitable to serve.

80% **of advisers would not service clients with assets below £50,000**

The FCA and Europe Economics' 2014 Post Implementation Review of RDR suggested that 80% of advisers would not service clients with assets below £50,000 and that 'the availability of advice has declined post-RDR, especially for customers with less than £20,000 to invest'.

The business case for advising more consumers

Consumers are now buying wealth management products directly in large numbers. In its Investment Platforms Market Study, the FCA breaks down investment assets on these platforms as two-thirds held on advised platforms and one-third direct to consumer, with the reverse true regarding customer numbers.

The size of the non-advised investment market suggests enormous potential for moving more people into advice, especially given a significant difference taking professional financial advice can make to an individual's wealth. A 2019 study by the International Longevity Centre and Royal London found that UK adults who took advice between 2001 and 2006 saw their assets increase by an average of over £47,000 after a decade, compared with those who didn't get advice. The gains were especially significant for those with lower incomes.

78% **of firms with 50 or more advisers were profitable in 2021**

But why should advisers care about the mass market? The FCA's Retail Intermediary Market tells us that 95% of advice firms posted a pre-tax profit in 2021, with smaller firms (1 to 5 advisers) performing the best. At the other end of the scale, only 78% of firms with 50 or more advisers were profitable last year.

Many advisers may understandably be quite happy with their current business model. Smaller firms, in particular, may lack the bandwidth and incentive to broaden their client base beyond their profitable wealthier market segment.

Typically, this will include a high proportion of post-war baby boomers aged between 58 and 76 who are approaching or at retirement and have accumulated enough wealth to justify the cost of traditional financial advice.

However, what happens when this current ageing client base literally dies out? Younger generations have not enjoyed the same benefits of generous workplace pensions and access to affordable house purchases. The average annual pension contribution for those in the private sector was £2,110 in 2021, according to the Department of Work and Pensions. While auto-enrolment has been successful in driving up the workplace pension participation rate, the Pensions Commission estimates that 38 per cent of the working age population is not projected to be saving enough for an adequate retirement income. At the same time, home ownership among younger people has decreased over the last 20 years, according to the Office for National Statistics figures, with a quarter of those aged 16 to 64 now renting privately, up from one in ten in 1993.

This points to a less affluent population and client base emerging for advice firms over the coming years. Pressure on advice charges is likely to increase, and there is mounting evidence that forward-thinking advice firms are merging and being consolidated to create the scale required to make investments to improve efficiency.

Enhancing profitability and advising more consumers

As we've seen, to ensure long-term success, advice firms need to consider how to support a new generation of consumers who are likely to have far lower investable assets than the current cohort of advised clients.

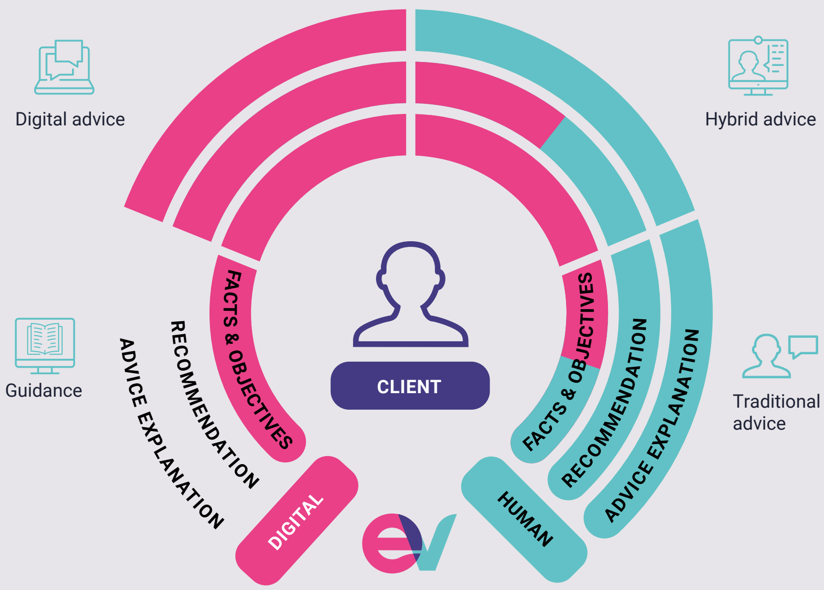
Technology has a significant part to play in improving efficiency. As mentioned earlier, firms could be 75% more efficient if their systems spoke to one another. The obvious step will be integrating and harmonising IT systems to reduce the need for multiple manual interventions. But this will not in itself be transformational in lowering costs. However, a step change in costs will be achieved if consumers can be encouraged to do more for themselves.

While self-directed or '**execution only**' sales, which offer consumers no advice, can achieve a significant saving in distribution costs, they are only really feasible in limited situations involving knowledgeable and confident consumers, simple financial needs or where there is a default option as with auto pension enrolment in the workplace. And as we have seen already, consumers, without the benefit of advice, often make suboptimal decisions which cause them significant financial detriment.

> **When making long-term or complex financial decisions, advice is the most effective way of helping consumers.**

The financial services industry differs from other industries in that people's decisions involve intangible products and require a leap of faith that these products will deliver the hoped-for outcome at some seemingly distant time in the future. It is primarily for this reason that our industry has struggled to transform its interactions with consumers like some other industries have. The financial services sector is miles behind in this sense. IT developments, therefore, need to be focused on transforming the consumer experience of wealth management. Back-office systems need to support this change but will not drive it. Changing how consumers interact with financial products and services will be the real driver of a transformational improvement in profitably servicing more consumers.

What does an omnichannel process look like?



This diagram incorporates a spectrum of options that can be offered to consumers. Starting on the left with guidance, consumers can discover information ('facts') about investments and financial planning and, by modelling alternatives, set realistic 'objectives' for their financial plans. Continuing clockwise, 'digital advice' provides a 'recommendation' together with an 'advice explanation' in the form of a suitability report. Algorithms generate the advice, and there is no planned intervention or support provided by advisers. This model currently only works for simple advice on, for example, ISAs and general investment accounts. As we continue clockwise, increasing levels of adviser support are provided. Firstly, advisers could walk customers through their suitability reports and give an explanation of the recommendations made. As adviser involvement increases, so does the cost of giving advice.

For more complex advice, this will be essential. **What we have in between are blends of hybrid and digital advice**, which essentially use technology and algorithms to reduce the cost of providing advice.

Full traditional advice is currently expensive to deliver, owing to ever-increasing regulations, insurance requirements and the cost of time required to be spent serving the client. The deployment of technology and algorithms can shoulder some of the burdens and reduce adviser input, substantially reducing the cost of giving advice.

In a hybrid advice process, individuals start by using a digital process, for example, completing the initial fact find and straightforward questionnaires, before moving seamlessly to a financial adviser to complete the process.

Greater automation of the process is then possible depending on the advice required, with the production of the suitability report driven by built-in algorithms. Essentially the advice becomes increasingly digitally driven. Where adjustment to a suitability report is needed, for example, owing to complicated issues with a case, the adviser can still step in and amend the report. This helps to ensure advisers spend their time focusing on value-added tasks, such as explaining issues and recommendations and dealing with complex cases, which is a more valuable use of time. This is the hybrid and digital advice model which can contribute to driving transformational change.

To begin with, the use of automation and algorithms will be minimal. As the algorithms are improved and tested, the involvement of advisers will reduce. Advisers will still be responsible for giving the advice, even if it is based on advice algorithms, and so sampling checks will need to be carried out to ensure the advice provided is to a high standard. The nature and speed of transformation will depend on the sophistication and wealth of the consumer base and the type of advice offered. For example, advice for ISAs/GIAs is more straightforward than at-retirement advice. Therefore, the adoption will be quicker for the former area.

A carefully constructed combination of digital, hybrid, and traditional advice is the key to unlocking a transformational change in the cost of advice and the consumer experience.

Our view on potential cost reductions

We can look at an example based on EV's direct experience to get an idea of the potential for possible cost savings. Nowadays, with the demise of defined benefit (DB) pensions, virtually all employees need some level of financial planning, particularly at retirement when confronted with the critical and very difficult decision of how to provide themselves with an income that will last for a retirement of indeterminate length.

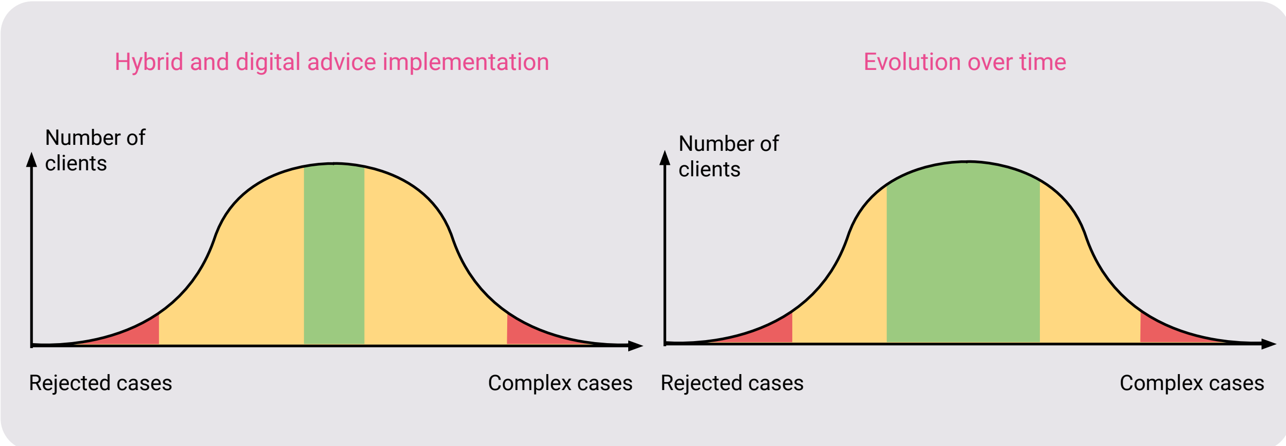
With an initial hybrid and digital advice approach, employees are encouraged to start the ball rolling using a digital process and are then moved seamlessly to a financial adviser to complete the advice process.

> **This can achieve a significant improvement in advisers' productivity. Based on our own experience as a provider of adviser tools and digital advice, savings of about 50% of an adviser's time can be achieved through a seamless transition from a digital process to adviser-delivered advice.**

This is very much a starting point. The aim is to progressively develop the advice algorithms that drive recommendations and generate suitability reports to become smarter and able to handle more cases without adviser intervention. Greater automation of the advice, including the production of the suitability report with recommendations offers the prospect of dramatically reducing the cost of advice to, perhaps, a tenth of the cost of traditionally delivered advice. We are well on the way to achieving this. Advisers are still involved with complex needs like 'at-retirement' advice, but their time can be spent on high-value-added activities such as explaining recommendations so that consumers have confidence in the advice they have received.

Cost reductions will increase progressively

While advice algorithms will improve with time, for the foreseeable future, they will only be somewhat reliable. At the outset, every case and every automated suitability report will need to be reviewed by an adviser, and a number may need to be amended. Over time, however, management information can be used to establish safe cases.



The diagrams here shows how cases may be categorised based on the data collected. Red cases will not be suitable for digital advice because they are out of the scope of the advice covered by the algorithms or because there are complicated issues that need an adviser's attention. Amber cases will be those requiring an adviser review. At the outset, all cases will be amber until sufficient testing of the advice algorithms shows that the algorithms can be relied upon based on the data collected. After some time and rigorous testing, straightforward cases will be designated green. The number of green cases will increase as the algorithms are improved and tested. Advisers will still be responsible for the advice given, and sampling checks will be carried out. The proportion of adviser time spent on administrative activities will reduce, such as dealing with simple advice cases and the production of suitability reports, and **advisers will spend increased time on higher value activities, such as explaining issues, giving recommendations and dealing with complex cases**.

There is no one definition of hybrid advice. Firms will have different views over how much advisers are involved, whether non-advisers are deployed to hold the consumer's hand during the advice process, how much effort is put into improving advice algorithms, how quickly the automation of advice is introduced, and how additional aids based on artificial intelligence are introduced. The essential point here is that the nature of the transformation and its speed will depend on the consumer base (individuals' sophistication and wealth) and the scope of the advice offered. There is no single recipe, but what will be common to all is the potential to transform the way advice is delivered.

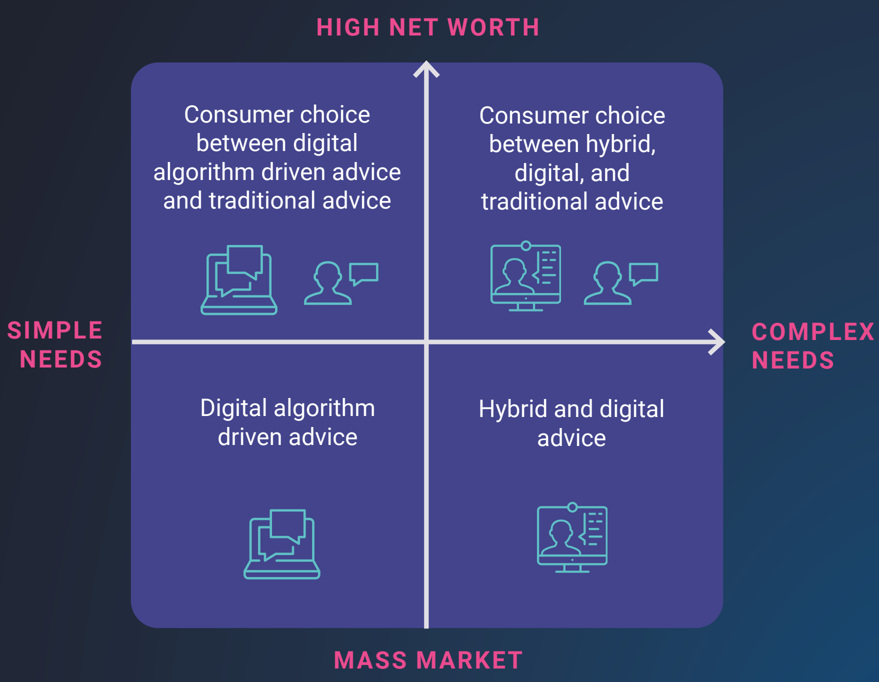
6 Developing a hybrid and digital advice proposition

What a successful hybrid and digital development looks like

Each advice firm will have its view of how to implement hybrid and digital advice and how to improve both its customer proposition and profitability. Indeed, how well these are deployed in conjunction with **traditional advice** can become a major source of competitive advantage. Typically, it will be rolled out in phases and refined over time based on MI and client feedback. What is critical however, is to have a vision at the outset of what the ultimate client proposition might look like and keep this in mind throughout the evolution of the solution.

We have seen a number of digital journeys launch over the last decade focusing on ISA and GIA journeys. This is a useful place to start considering the issues, as the advice here is relatively straightforward compared to other complex need areas. However, it is these more complex need areas where individuals require the most support. At-retirement advice, where people need to decide on how to obtain a sustainable income in retirement, involves numerous complex factors such as longevity risk, how income needs may change, investment risk and inheritance requirements. Decisions on drawdown and annuities need to be made while considering other pensions, such as state and defined benefit pensions, other income sources, debts and assets, which can affect the situation. **At-retirement advice is certainly an enormous opportunity to leverage the efficiency of hybrid and digital advice**. The ultimate proposition may need to morph along the way, as it will be important to learn from consumer feedback. Introducing hybrid and digital advice should be seen as a learning experience not just about achieving high consumer engagement but also how to bring down the cost of advice progressively. Plans should adapt as management information points to ways to deliver advice more effectively and efficiently.

The challenge with complex advice areas is to judge the level of support provided by advisers, as this will limit the potential for cost reductions in advice. The image below displays how traditional advice, hybrid, and digital algorithm-driven advice may be deployed based on the complexity of the advice and the net worth of customers:



There are many areas where hybrid and digital advice can be deployed, including:

- investment
- pre-retirement
- at-retirement
- in-retirement
- product consolidation (mostly pension switching)
- mortgage protection
- family protection
- inheritance planning.

The choice of areas and their priority will be driven by the business impact that will be achieved. The complexity of the advice and the nature of the client base will drive the emphasis between purely digital, hybrid and digital advice, and traditionally delivered advice.

Digital algorithm-driven advice could serve the mass market with simple needs, with hybrid and digital advice supporting those with more complex requirements. Traditional advice can, of course, remain in place for the wealthier segment who value the full attention of advisers and can happily pay for it.

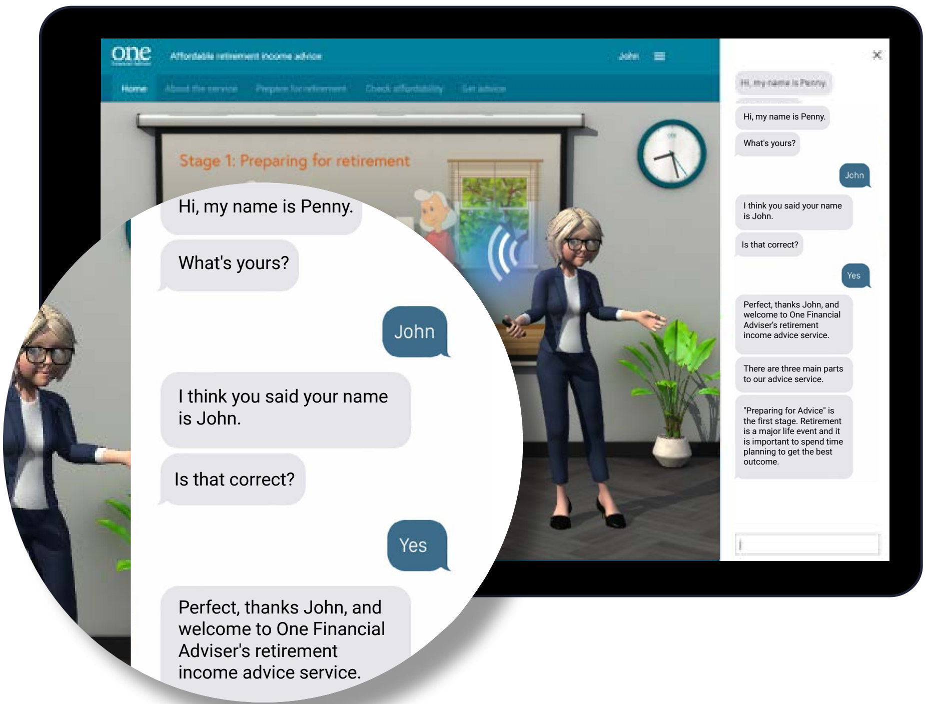
Starting simple and learning

An implementation plan involving several phases may start with a comparatively easy initial digital proposition. Several organisations have introduced fully digital advice covering ISA and GIA investments. This is a useful starting point because most of the issues involved with delivering regulated streamlined advice are more manageable in this area. Experience in customer engagement techniques can be gained quickly with a fully digital advice process designed to work with no support from advisers or non-advisers. A well-designed, engaging digital journey is essential as the economics make it hard to justify offering human support (this may change with the introduction of the FCA's proposed new Simplified Advice regime). The only disadvantage of starting with a simple mass market investment advice proposition is that ISAs and GIAs are not the areas of greatest need and consequently, attracting consumers may be a challenging task and involve expensive marketing.

Greatest need is for at-retirement advice

A few organisations have chosen to launch hybrid advice propositions addressing the needs of at-retirement consumers – those who need to decide how to provide themselves with an income in retirement. This is a complex area where wrong decisions can devastate retirees' living standards for the rest of their lives. Not only are there difficult choices to make between flexi-access drawdown and annuities, but there will frequently be other defined contribution (DC) plans in play and questions about consolidation. DB pensions, state pensions and other income, debts and assets which can affect the income being drawn also need to be considered. Additional assets can include cash deposits, ISAs, GIAs, buy-to-let property and home equity release. It is, therefore, not surprising that at-retirement advice is expensive to provide and beyond what can be justified by mass-market retirees.

Arguably, at-retirement advice is the biggest need in the advice gap. The demand is obvious, but **the key question is to decide on a pricing point alongside the scope of the advice**. The advice needs to be comprehensive enough to be useful but not so wide that the cost of delivering this highly regulated advice puts it out of reach for many potential clients. Because the advice is complex and critically important to the future well-being of retirees, the advice will need support from advisers. This requires careful consideration to get the right level of support – enough to help the retiree understand the issues and have the confidence to act on the advice, but not so much support from advisers or non-advisers that the advice becomes too expensive. Ways of providing support could involve chat rooms, chatbots or, more innovatively, avatars using voice recognition and AI to help clients through the more difficult parts of the process.



Advantages of consistency and seamless data transfer

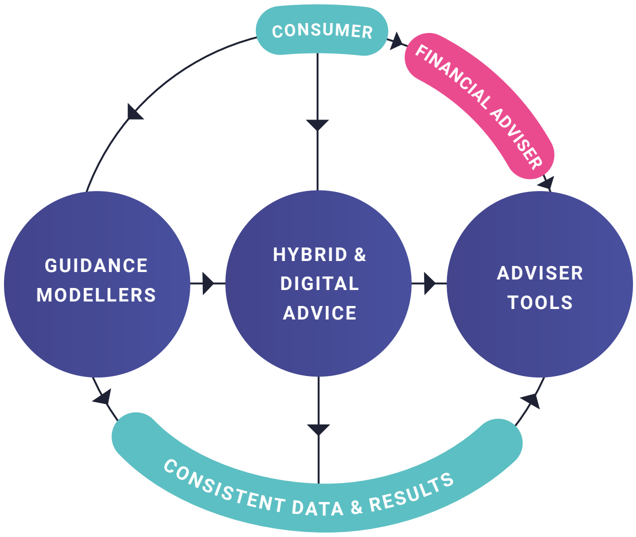
A multi-phase, multi-need plan should involve an omnichannel approach to advice, with a guidance option for self-directed product purchases. Advice and the level of support – the degree to which advice is hybrid or purely digital – will depend on the consumer's need for advice, the appetite to pay for it, and the type of advice provided. **For a genuine omnichannel experience, consumers should be able not only to choose an option at the outset but also to move seamlessly between advice options depending on changing needs and preferences**.

Individuals may use a different channel (guidance, digital advice, hybrid and digital advice, traditional advice) based on their needs at a particular time. From a consumer's perspective, the ideal solution should allow movement across the various channels with little resistance. To achieve this, consistency of data and results is critical to ensure a seamless journey for individuals. A consumer can move freely across the different channels if this can be achieved.

Seamlessness is achieved by ensuring all data is carried with consumers as they move between channels and is maintained by ensuring that each channel has consistent tools and produces consistent results. Cognitive dissonance should be avoided by channels producing different results which have no easy explanation.

It's worth noting that guidance modellers are a very useful addition and can help to engage and encourage consumers to take advice. However, care needs to be taken to clearly differentiate guidance from advice. Any confusion in consumers' minds could lead to guidance being held to the exacting standards of advice. The FCA's holistic review of the boundary between guidance and advice could prove useful here when, of course, it happens.

There are many ways for consumers to interact with guidance, digital, hybrid, and traditional advice. The diagram below illustrates some simple omnichannel options. A consumer may use a provider's guidance modellers for support with pre-retirement decisions. The individual may then move to digital advice for ISA investment without adviser support. When the consumer approaches retirement, traditional support from a financial adviser may be required. In this case, any underlying data previously input by the consumer should be accessible. If done correctly, this keeps the individual in the ecosystem and able to get support for other financial decisions.



Alternatively, an individual may start by using hybrid advice for at-retirement needs but then move to a traditional adviser relationship for additional support to handle complicated issues. In this case, any information input and results already seen by the individual should be consistent with the planning tools used by an adviser. This improves efficiency and potentially reduces the cost of advice for the consumer.

7 Achieving customer engagement

The 'missing link' in hybrid and digital advice

One of the key objectives of an online consumer journey, such as in hybrid and digital advice, is to enhance business profitability by reducing costs. However, this cannot be achieved at the expense of maintaining consumer engagement, fostering client retention and creating opportunities for new business with existing clients.

It is essential to provide an acceptable alternative to the 'human touch' to create all of these desirable outcomes via the same process. The absence of this human contact is the major perceived disadvantage of online-only interactions with consumers. It is the 'missing link' in any form of digitally delivered advice.

Retaining the 'human touch'

With hybrid and digital advice, there is, of course, some human involvement at appropriate times. However, to keep costs down, it is necessary to limit the time spent by human advisers and support staff to affordable levels.

In finding ways to meet the resulting gap in human interaction, we must not underestimate the extent to which experienced advisers, client support personnel and other staff use a wide range of human communication techniques (of which they are often wholly unaware) to engage, reassure and inform clients during face-to-face or phone/video communication.

By compensating for the absence of this intuitive human communication, learnings from behavioural science and human psychology can provide useful ways to foster engagement and positive business outcomes. There is no unique solution, and, as with everything associated with hybrid and digital advice, a process of sustained continuous improvement based on MI and feedback will be needed to achieve the best outcome.

Promoting positive behaviours

Behavioural science offers many useful techniques which can be deployed to promote positive behaviours. The appropriate use of nudges and heuristics can be applied to aid good decision-making. Nudges can be built around events such as reaching a milestone age, offered on anniversaries, or used when charting progress towards the desired outcome. If an advice journey is incomplete, prompts can be given to complete the process with reminders of the benefits of having a financial plan or of the desired outcomes.

Models from other sectors

In seeking to encourage engagement with financial planning and advice, there is much to learn from self-improvement programmes, for example, health and fitness apps.

Apps like Noom, FitBit and Strava draw on the concept of the 'Quantified Self', i.e. the cultural phenomenon of self-tracking using technology and the related human fascination with data centred on us.

Such apps frequently feature process goals and promote habit formation. Design is based on widely understood ideas about how personalised journeys can be provided for users.

The personalisation of journeys may be provided for users based on their answers to some initial questions and enhanced by other information collected in the app.

A blueprint for hybrid and digital advice?

A similar approach may be applied to hybrid and digital advice via an engagement app and implemented during the advice process.

> **Successful engagement with financial planning and advice would benefit from employing various underpins derived from behavioural science and human psychology, including Personality Profiling.**

Personality types can be determined from:

- a matrix of overt questions (mainly at the onboarding stage) and more subtle gating based on interactions with the embedded content
- the use of imported material, such as that derived via online banking, provides a rich data source to inform consumers' profiles further.

Based on these Personality Profiles, technology can produce hundreds of different variables of text, graphics, questions and other content to create a highly personalised experience.

The case for open banking

There is, in any event, a strong case for promoting open banking to consumers as a means of facilitating the delivery of advice. It saves them time entering data and provides another facet of the 'Quantified Self' – the human predilection for self-tracking and the measurement and quantification of all aspects of daily life using technology such as devices and apps.

Complemented by other data collected, open banking may enable the user experience during the advice process to be further personalised using dynamic underpins. For example, characteristics such as 'spontaneity' versus 'fixed purpose' may be deducible from the data.

Personality types

From the questions asked and information collected, consumers can be assigned to one of a number of personality types.

These personality types can be mapped to high-level descriptions of likely approaches to money and financial planning.

For example, employing four types – **Conservative**, **Experiential**, **Actualising** and **Strategic** – we can personalise the journey for the user on the basis that:

- **Conservatives** like security, peace of mind and reassurance that their financial affairs are being looked after. They value facts and clear outcomes.
- **Experientials** care about their lifestyle, both now and in the future, and want to avoid worries that distract them from engaging with life. They enjoy sensate experiences and actively engage with the steps of the journey.
- **Actualising** people see money as a means of fulfilling dreams and look for meaning based on personal values. Relationships are important, they want a virtual 'collaborative business partner' to work with.
- **Strategics** see managing money as a challenge and a skill to be mastered. Technical information and explanations of tactics and results are important to them.

These high-level characteristics relate to broad personality types. Personalisation may be further refined as other information is collected, for example, from risk questionnaire results or analysis of spending habits from open banking data.

Driving customisation of content

Addressing the personality types, any further personalisation and dynamic underpin will alter the tone of voice during the advice process via means such as changing the wording, varying the way questions are raised and using different formats for information provided.

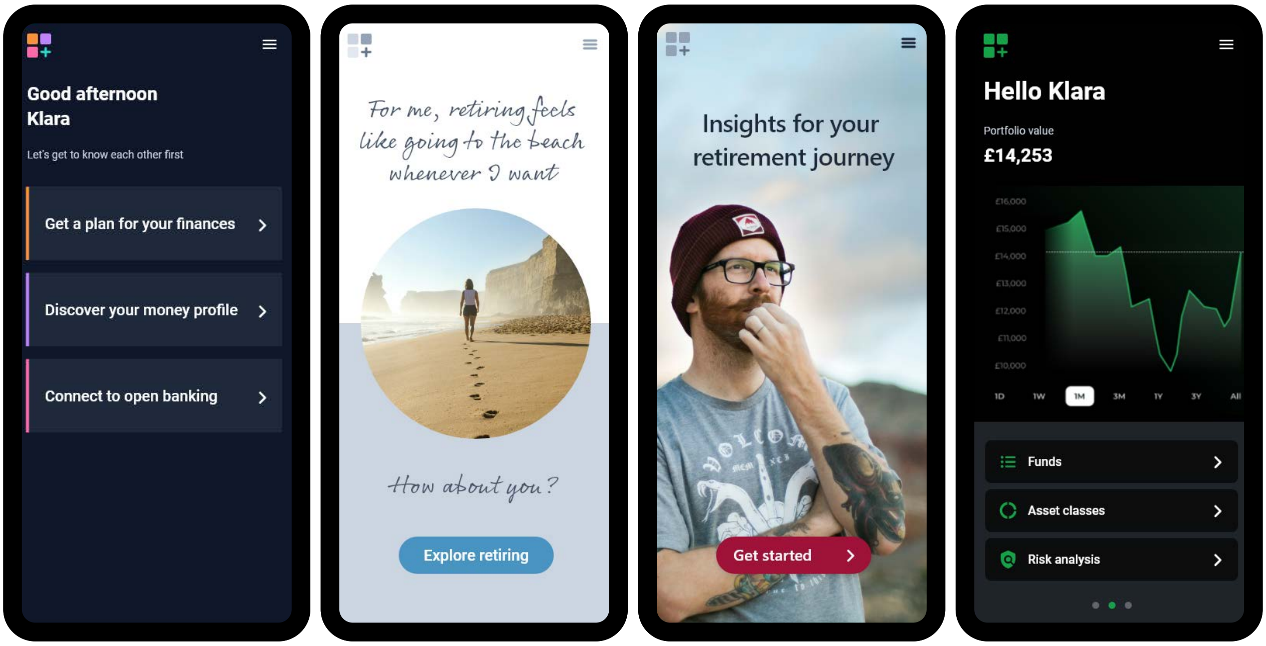
For example, **Conservatives** will respond better to direct and authoritative information, as they like clear results. In contrast, **Experientials** react well to a process that will quickly and vividly answer their needs. For an **Actualising** personality, the tone should be that of a partner working together with the consumer. **Strategics**, who are likely to be a minority of users, look for information to learn and want to understand the rationale of the advice they are receiving.

Visual presentation

The visual presentation of results offers an additional means of personalising the user experience. For example:

- **Conservatives** like clean, straightforward communication and screen designs reflecting this.
- For **Experientials**, the process is important and enjoyable screens illustrating a programme to follow may resonate best with them.
- **Actualising** consumers will respond to a human face and encouragement to realise their potential in collaboration with their online 'partner'.
- Charts, data and the ability to drill down will appeal to **Strategics**.

Conservative | Experiential | Actualising | Strategic



Other engagement tools can include quizzes and games. These will only work well for some personality types, but they can help to communicate information in a fun way that sparks deeper engagement.

Wider benefits

An app can help engage consumers and encourage them to undertake a digitally based advice process by providing them with insights and an understanding of how advice can make a difference. The advice process's personalisation will help reduce drop-offs and stimulate consumers to act on the advice.

Post advice

After receiving advice, consumers should be encouraged to continue to use the app, as it is important to build long-term relationships with them. Content should continue to be personalised. This can be varied to reflect the fact that advice has been given and lots is now known about the consumer. Opportunities should be provided for people to input changes to their situation, and prompts should be offered for plan reviews. Other content could include links to articles chosen to appeal to the different personality types.

The value of a great customer experience

Creating a really good customer experience is important. To achieve this, the app must be:

- genuinely valuable – addressing an individual's perceived problem
- easy to use
- clear and understandable
- designed with thought and care
- enjoyable – offering compelling content
- personalised with tailored experiences for each type of consumer
- able to deliver ongoing engagement to nurture consumers through their financial journeys after advice has been provided.

Keeping an eye on the prize

These attributes are challenging to achieve and need to be reflected throughout a hybrid and digital advice journey. It is important to establish the principles and apply them to continue to improve the consumer experience iteratively. **Firms embracing this approach will not only delight consumers but will also be rewarded for achieving a significant and sustainable competitive advantage**.

> ... hybrid and digital advice is part of an omnichannel customer proposition that can drive transformational change which can benefit both consumers and advisory firms.

8 Conclusion

There are clear opportunities for advice firms to utilise digital and hybrid advice as a part of their customer propositions. Digital and hybrid advice makes it both simpler and more cost-effective to serve more clients successfully. It also offers clients a valuable new choice for financial advice and fills the gap between guidance and traditional advice.

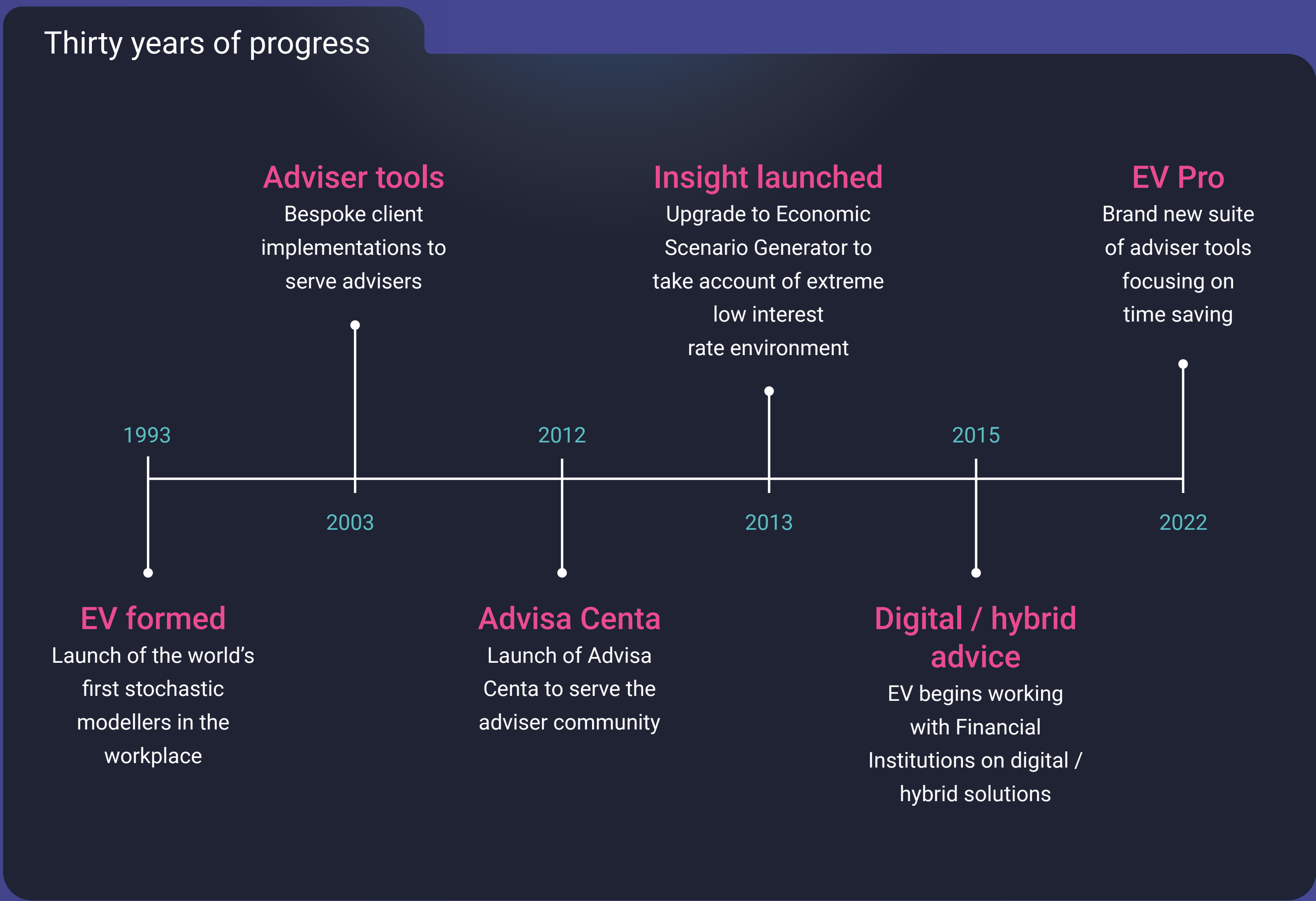
How firms go about implementing digital and hybrid advice, how far they go, and at what pace, will depend on what's right for their business, its customers and their business objectives. There is considerable flexibility about how to go about introducing digital processes into the advice journey. The financial services industry has lots to learn from other retail businesses about how to engage and serve customers. These learnings will, of course, need to be adapted to meet our highly regulated environment and the intangibility of our 'product' – good financial advice. Nevertheless, there is lots of scope to do things which are both innovative and 'safe'. As an industry we shouldn't wait for our regulator to solve problems. If we do, we will wait a long time as it isn't the role of the regulator to innovate.

As an industry, we have lots of resources, both financial and good people, and the capability to try new things. Some will work well, and some will need to be adapted as we learn. The investment by established financial services brands in 'robo start-ups' demonstrates an appetite to experiment and learn. But digital and hybrid advice are not the solution but simply part of a solution which puts the customer at the centre. If we want to, we can call this omnichannel, but put simply, it is providing a choice to customers over the level of service and the price they pay. The choices and price points will vary depending on a firm's customer base and the degree of 'hand holding' required. Customers should be able to move between service levels according to need. This is why digital and hybrid advice needs to be embedded tightly within a firm's customer proposition and not viewed as a separate channel.

Digital and hybrid advice will not deliver business transformation but to quote from our 2016 white paper, it is "the catalyst for transformational change". A change which will offer financial services firms the prospect of increasing both the number of customers they serve and the profitability of advice.

Appendix 1: About us

EV has a long history of helping financial services organisations to simplify complex financial decisions for consumers and to deliver good outcomes efficiently and successfully. As a champion of financial advice, our time-saving tools based on advanced software and stochastic modelling, aim to deliver what advisers need and help them to exceed their clients' expectations. Over the long term, we are committed to supporting the financial services industry and advisers so that their clients can be confident that their finances are well managed, in good times and bad.



All our solutions use the same engine to deliver guidance, hybrid/digital and traditional advice.

EV started life in 1993 with the mission to help people understand the risks and rewards of their investments, providing them with knowledge and confidence to make informed financial decisions. We pioneered stochastic modelling to explain investment risk and reward graphically, realistically and reliably based on sound asset modelling techniques – a world first.

Moving from producing consumer guidance tools designed to help individuals make self-directed personal financial decisions, we focused on developing a suite of financial planning tools aimed at financial advisers and planners. The objective was to support advice professionals with helping their clients make better financial decisions.

We naturally gravitated towards becoming early adopters of what was initially called 'robo advice', but with a difference. Rather than go down the guidance route like others did, in 2013, we began work on digital investment advice to meet the FCA's advice requirements. Our vision was to treat digital advice as complementary to guidance and traditionally delivered regulated advice. We worked with two UK banks to launch digital advice on their ISA and GIA investment product lines.

In 2016, our white paper entitled 'Robo Advice – The Catalyst for Transformational Change' looked beyond the ill-defined 'robo' buzzword to how digital advice would become a new channel between guidance and traditional advice. As a result, consumers would get a new low-cost advice option, while financial services firms would reap productivity gains.

Another stepping-stone in 2018 involved delivering compliant pre-retirement digital advice in the workplace, including the output of an automated suitability report involving minimal support from financial advisers. We continued down this path to encompass more complex holistic at-retirement advice, taking into account all pensions and wealth that could support retirees' income needs. For example, pension switching advice enabled past pensions to be consolidated, and digital advice algorithms were built to test the affordability of retirees' cashflow plans, understand their income preferences, and test their capacity for loss with the necessary adjustment if required.

All roads led to the concept of 'hybrid and digital advice' being the way to go – centred on progressively reducing the amount of adviser support required during the advice process and so cutting the cost of delivering advice, thereby improving the bottom line for advice firms. A key component is using avatars and AI to support consumers during the advice journey.

As 2023 dawns, we are determined to continually improve consumer engagement by personalising the digitally aided advice process that defines hybrid and digital advice, which involves varying the tone of voice and user experience according to personality type. The end goal is to provide the right tools that help advice firms deal with their clients more efficiently in less time or service more clients with the time freed up through digital engagement processes.

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How we can help your business

We are here with a forward-looking hybrid and digital approach to support your business in developing advice propositions. Using digital engagement techniques, we have experience of delivering hybrid and digital advice for:

- pre and at-retirement advice
- investment
- savings
- protection

Because every firm is different, and your requirements are unique, we can help you work out how hybrid and digital advice can fit within your existing propositions and support your clients with a more engaging experience. We design our solutions to be flexible to meet the needs of your current advice processes and product rules. We can also deliver automation to reduce advice costs, allowing firms to manage more clients with much less adviser time required for each. But, of course, the split between digital and traditional advice will vary from firm to firm, depending on the proposition and client base.

One engine, seamlessly integrated

All our solutions use the same underlying software engine to deliver the required service – digital, **traditional advice**, or a blend of both to create your hybrid and digital proposition. This ensures consistency, with no risk of different answers and forecasts generated when clients move between channels according to their need for support.

Another benefit of our way of doing things is that you win back valuable time, as digitally enabled **hybrid advice** uses the same risk profiler as you would with **traditional advice** processes. Moreover, rekeying information – the bane of advisers and planners – is eliminated as movement between channels is seamless.

Empowering clients… and you

Giving clients the confidence to self-serve is a great way to reap efficiency gains. Our guidance modellers inform and educate people ahead of the advice process, increasing engagement and reducing the need for support. In addition, digital advice for simple needs can increase the capacity of clients to do more for themselves and dramatically reduce the cost of advice.

Using EVPro, our advanced adviser tools suite, you and your firm gain access to comprehensive, sophisticated capabilities to deal with cases referred from a digitally commenced advice process, such as when clients with complex issues require face-to-face time. EVPro backsolves complicated planning problems, considering timing, tax and product wrappers. All fact-find information collected at the outset of the hybrid and digital process flows through to advisers.

EVPro's advice solutions support further need areas calling for adviser input, such as equity release, pension consolidation, inheritance tax and vulnerability issues. Not least, our solutions provide fully automated and editable suitability reports, configurable to accommodate adviser wording and branding.

Reach out to us

Get in touch to learn more about the advantages to your business when adopting a hybrid and digital advice approach that fits your goals. We are here to help.

01635 881180 contact@ev.uk www.ev.uk

Appendix 2: Glossary

Algorithm	A series of logical steps programmed into a process which leads to a recommendation for advice without the need for someone to make any decisions themselves.
Digital advice	Advice provided by algorithms in an online journey without any intervention by a human adviser during the process.
Execution only	Where a customer purchases a product without any advice given. Also sometimes known as self-directed.
Guidance	Education and help that is provided to customers without giving personalised advice on what to do.
Hybrid advice	Advice is provided by a combination of adviser input and customer interaction in an online system.
Robo advice	This can be a fully automated advice solution where the recommendation is made by an algorithm and presented to the customer online. Robo advice can also be 'guidance only'.
Simplified advice	The advice firm limits what it is advising on to a specific need area. This term is also used in the recent FCA consultation CP22/24, which proposes changes to the requirements for advice on investment ISAs.
Streamlined advice	Advice that is limited to one or more specific needs, whether the limitation is set by either the adviser or the customer. Anything outside of those specific needs is not considered. Digital advice is, by definition, usually streamlined advice. Streamlined advice was described in FCA guidance FG17/8.
Traditional advice	The adviser and their team are involved in all stages of the advice process, with the customer's interactions being with the adviser rather than with any online process.

The Newbury office

EV, Benyon House, Newbury Business Park, Newbury. RG14 2PZ

01635 881180 contact@ev.uk

The London Office

EV, 50 Liverpool Street, London. EC2M 7PY

contact@ev.uk **www.ev.uk**