THE EVOLUTION OF THE HYBRID ADVICE MARKET

An FTRC White Paper

FTRC
FINANCIAL TECHNOLOGY RESEARCH CENTRE

Background

In recent years, there has been a growing trend of financial advice practices deploying technology that involves the client more directly in the advice process, e.g. completion of online fact finds, accessing data and documents via client portals and online risk profilers. Financial Technology Research Centre (FTRC) firmly believe that advice firms who invest in their technology and digitise the client experience will thrive and survive. Forward thinking advice firms are now embedding client-facing digital solutions into their propositions, these firms have already embarked on a journey towards Hybrid Advice.

In recognition of developments in this area, FTRC have conducted an extensive market study into the emerging Hybrid Advice market in 2023 to gain deeper insights into the breadth and depth of the solutions that are available to advice firms today.

Our research identified two key challenges facing the Hybrid Advice market. Firstly, advisers need help to understand exactly what Hybrid Advice solutions can deliver. Secondly, technology vendors, whilst having delivered some very impressive capability, will need to improve the breadth and depth of their offerings if they are to deliver solutions that will address the needs of their prospective clients i.e. advice firms.

FTRC's study includes 14 technology vendors, assesses 21 areas of each service and holds over 6,300 data points.

What is Hybrid Advice?

One of the best definitions we have come across is **"it is a mix of digital and old-fashioned personal help"** (*source: this is money*).

At its core, a Hybrid Advice proposition involves the use of technology and automated processes to support aspects of the client's journey such as document gathering, data collection, valuations, secure messaging, e-signatures, and communication. It can allow clients access to analysis tools for instance, attitude to risk questionnaires that empower them to make well-informed decisions about their finances. It could also provide them with an in-depth understanding of their financial position and goals for example, via access to valuations and product documentation.

What role does the financial planner play in a Hybrid Advice world?

The use of Hybrid technology will inevitably see the development of the 'Hybrid Adviser role'. This adviser is going to be less involved in the earlier stages of the advice process, i.e. data capture and client onboarding, which will be handled by the technology or other supporting roles. However, the Hybrid Adviser will focus more on ratifying and amending client choices and act as a technical expert when needed.

Hybrid Advice software enables the triaging of clients in a more efficient manner, directing them into the most appropriate proposition. These solutions can give the advice firm the ability to focus on the areas where they can add the most value to the client, i.e. giving financial planners more time to deliver advice and help the client manage and meet their goals.

Software vendors will need to build in flexibility to allow the advice firm to create space for human intervention at any point in the online client journey. The advice firm can then involve the financial planner at points where they feel most value can be added. This is a key factor of Hybrid Advice solutions; they can target the value advisers are adding to clients by only getting involved in those parts of the process.

Here are some examples of where the financial planner could get involved in, and deliver real value in a Hybrid Advice-led service:

- The client enters fact find data, sets goals, engages in some basic cash flow planning and creates a report. This in turn is assessed and ratified by a qualified planner.
- The client inputs data and set goals, at which point the software identifies sufficient assets so that a financial planner becomes involved more quickly in the process, as the service has defined there is a need for earlier intervention.
- There could be models that exclude clients with less than a certain amount of investable assets. Similarly, there could be a flag that highlights when a client is vulnerable. This ability to triage clients as they move through the Hybrid Advice process is a key advantage of these types of solutions.

These are just a few examples of some models that could evolve and we expect more to follow as advisers start to embrace these solutions more fully.

Hybrid Advice is not a fixed concept, on the contrary, advice firms will want to flex the technology to reflect their current and future propositions. It is unlikely that there will be a 'one size fits all' vanilla Hybrid Advice journey. Rather it will create the opportunity for the advice firm to produce a variety of propositions.

Why should advice firms be thinking about Hybrid Advice solutions for their business and clients?

We see the key reasons for adviser firms to consider such solutions as being:

1. **Process efficiencies:**
    - Initial data input is outsourced to clients, which reduces the time the planner needs to interface directly with them. This could be supported by non-planner roles.
    - Data validation outsourced to clients. Relying on clients to provide the right information about their circumstances, improving data quality.
    - Document creation outsourced to clients, e.g. review letters generated automatically after a client updates their circumstances in a fact find which are then checked by a financial planner who will focus on the new information supplied by the client.
    - Improved data governance. The client is invested in getting their data right which improves overall data quality for the advice firm.

2. **Capacity & Cost to serve:**
    - Increased client capacity for planners. More time to focus on activities that drive tangible client value and revenue generating activities.
    - Opens firms up to serve different and broader client audience, e.g. mass market. Although Hybrid Advice clients may not be exclusively mass market, some of these processes may appeal to clients with more assets such as clients who are entering their pre-retirement phase and are looking for advice.
    - Drives cost to serve clients on an ongoing basis down. The more streamlined the processes becomes, the lower the cost to service the client.

3. **Supporting multiple propositions:**
    - Multiple propositions created for client subsets. No longer a 'one size fits all' model, services could be tailored to meet the needs of different target market client groups.
    - Clients are able to choose how they want to interact with the firm. This may be influenced by the servicing models, fees charged or a combination of the two.
    - Creates the opportunity for specialised 'Hybrid Advisers' where the role of some advisers will be to deal exclusively with the hybrid client. This could be seen as a training ground for junior planners by some firms.

4. **The role of the regulator:**

    The ongoing FCA consultation 'Broadening access to financial advice for mainstream investments' will continue to drive the discussion over how to deliver advice for the mass market. Even though this may well be a move towards a simplified advice regime based around a limited range of investments, it still poses the question 'how soon can this be delivered and how?' Advice practices adopting a Hybrid Advice approach are evolving their answer to this by considering how they can weave technology and human expertise together.

For example, in the wider marketplace chat bots are becoming more and more popular as a way to help customers through their journeys.

5. **Demand for financial advice and its supply:**

   A 2022 poll in FT Adviser claimed almost half of advisers expected to see demand for advice grow over the next five years. Contrast that with 17% of advisers being over 60 (*source FT Adviser: https://www.ftadviser.com/investments/2022/04/04/only-6-of-advisers-are-under-30-years-old/*) and it's clear to see that demand for advice will continue to outstrip demand.

   The baby boomers generation continue towards retirement age and some are seeking advice and guidance for the very first time. Some advice firms will have the scale to build out significant propositions, whereas it may create an opportunity for large scale brands, such as banks or product/wrapper providers, to service mass market clients.

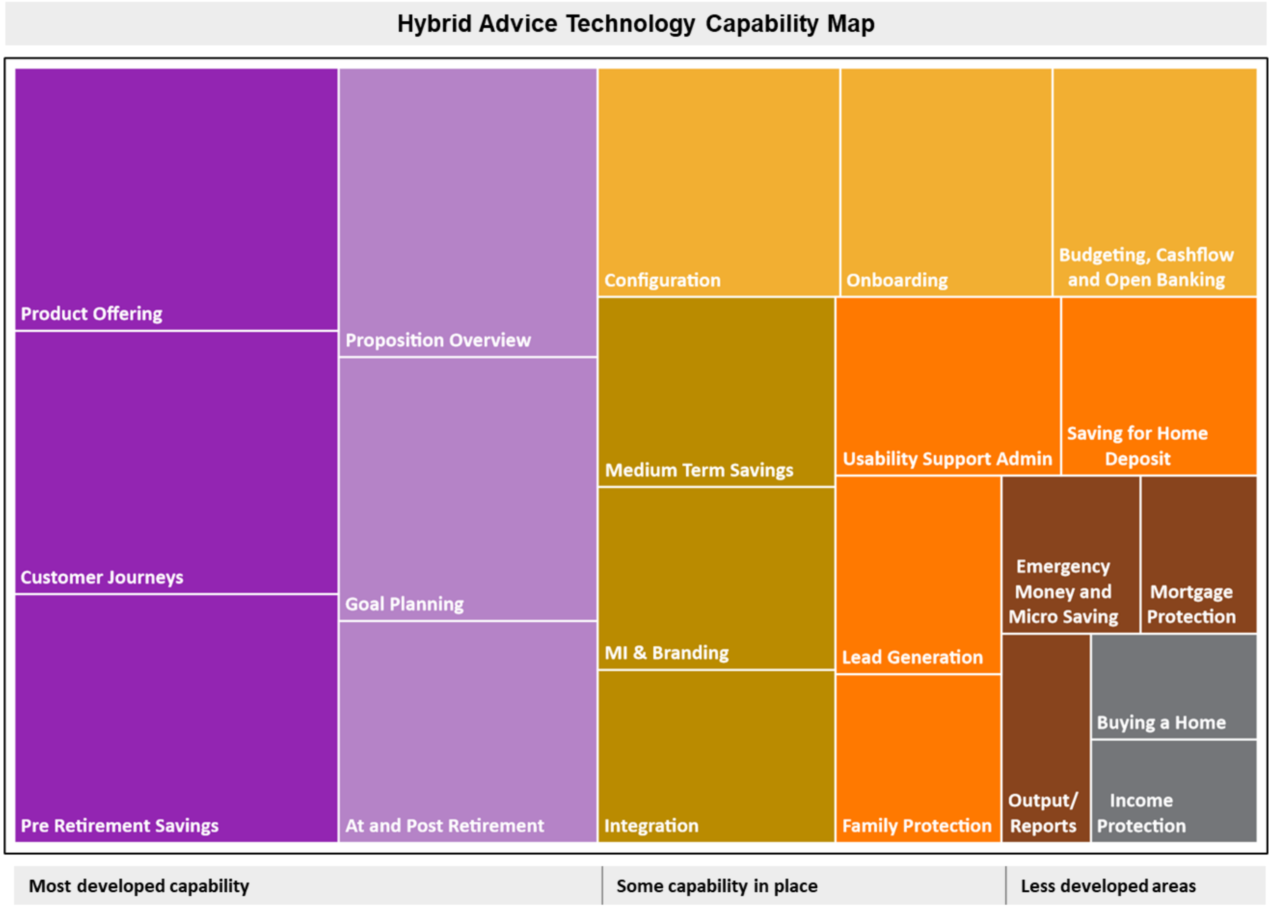
Will Hybrid Advice succeed where Robo Advice failed?

The attempt by 'robo-advice' to deliver a full range of advice that would rival the services of a 'traditional' advice method never succeeded in addressing the key point about holistic advice. As people we are all different and our lives, although similar in some ways, are always unique. So far, no one has been able to write an algorithm so comprehensive that it can capture the complexity of everyone.

How ready are the technology vendors?

The comprehensive survey conducted by FTRC on Hybrid Advice technology propositions showed varying capabilities across vendors. It reinforced our prevailing belief that although the vendors are evolving their capabilities the market is still some way off from being described as mature. However, as we look to revisit this study in 2024, we believe the propositions on offer today will have increased in depth and breadth.

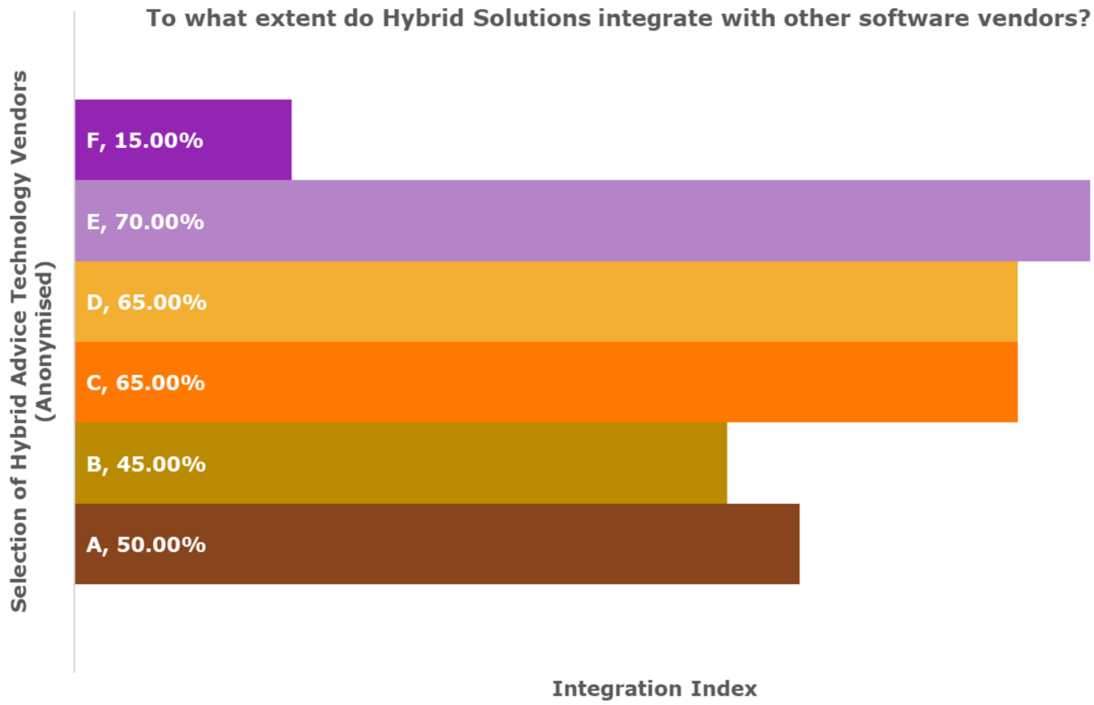
FTRC Hybrid Advice Study 2023



The above **Hybrid Advice Capability Map** illustrates:

- Where Hybrid Advice solution providers have applied the greatest level of focus when developing their propositions.
- The largest rectangles on the left represent the areas that have received the most attention from providers in terms of time and resources. For example, the solutions are heavily skewed towards the pre-, at- and post-retirement markets which is not surprising given the scale of the opportunity that needs to be addressed. For obvious reasons there has been investment in building out the client journey with a keen focus on offering goal planning solutions for clients.
- As you move to the right and bottom of the diagram, you can see the areas that are in need of additional development i.e. there were significant gaps around protection and savings advice where real support for such products have yet to fully materialise These areas are not as mature as the others, and they require more resources to be brought up to par.

Across the 21 sections of the study, it was clear to see that no single firm had managed to build a comprehensive and complementary Hybrid Advice journey. However, progress was being made in building out configuration capabilities which will enable advice firms to design and build out their own hybrid advice propositions.



The **Integration Index** shows:

- Being able to use and re-use data reliably across these processes will rely on the integration capabilities of the Hybrid Advice software vendors.
- Integrating to the client data source(s) for a firm's existing client base and making the client's journey easier through minimised re-keying will be essential.
- Good quality integrations should make the core Practice Management Software and the Hybrid Advice software harmonious. Our research showed that there is still some way to go.
- The results from the top six survey respondees (by score) indicated that there is some difference between the integration capabilities of the main contenders in the Hybrid Advice space. We are already seeing work on improving key integrations surfacing in product development roadmaps.

Please note: The above chart does not include all the results from the hybrid survey, as some providers did not complete this section and would have shown as 0%, which would not have been reflective of their service proposition.

Is the current technology mature enough?

The simple answer is no, not yet. But as more advice firms look at Hybrid Advice solutions options the more they will see its possibilities. As a result, the scope of their thinking around Hybrid Advice will continue to evolve which will lead to demanding more flexibility and product coverage from technology vendors.

This is why addressing the challenge of adviser awareness of this emerging technology is key to its development; the more advisers understand about Hybrid Advice capabilities, the more they will push vendors to build out solutions that meet their business needs.

There are increasingly more suppliers in the market offering more innovation and creativity. We feel this healthy competition will continue to push the speed at which the supplier market evolves.

Is the current technology worth considering?

For some firms the answer could be yes. Although still some way off maturity, there are some quality software offerings available. Some advice practices are now looking at adopting Hybrid Advice technology with an understanding that they will mature their own propositions and client experiences alongside the development of the software.

These firms have taken a position whereby being early adopters, they will be much better placed to take advantage of the improvements that maturing tech delivers. Being an early adopter can still deliver 'cost to serve' benefits even if the technology is still evolving.

The target market for Hybrid Advice

Mass market clients are the core target market for advice firms, at least for now. However, it's easy to see that the technology within the hybrid journeys could be used to support journeys of all types, including those who are 'asset rich and time poor' who may prefer to enter their own data in their own time.

The resistance from clients to deal with advice businesses online has been largely eroded with the impact of COVID where all direct face-to-face activity came to a halt and advisers were forced to digitise their approach to client interaction. On the whole, clients have responded well and there has been no real appetite to go back to more traditional ways of working. That is good news for advice firms who want to introduce more technology to their clients.

Would the technology I have today be able to create a Hybrid Advice journey?

There is an argument that by using client facing portals, especially those linked to Practice Management Systems (PMS), a version of Hybrid Advice is already evolving. Portals that allow clients to complete fact finds for example, as well as the questionnaires that support Attitude to Risk profilers.

Some portals also allow the new client to commence their journey on their way to building a relationship with the advice firm. So, it's clear that some of the building blocks for a hybrid advice journey do already exist in PMS portal technology in particular.

It is the ability to create multiple journeys, supporting multiple propositions, that currently distinguishes Hybrid Advice technology. We think that PMS in particular will continue to add functionality to support Hybrid Advice models, whether they can deliver the flexibility needed, and in the near future, only time will tell.

Future of Hybrid Advice

It is likely that we will see Hybrid vendor offerings grow to cover all the key products and areas required to support multiple client journeys and propositions. FTRC will continue to monitor the progress of software vendors' capability.

The technology will continue to evolve, allowing the client to execute more and more of the advice process themselves. Utilising tools like cashflow modelling as part of their journey, allowing the client to analyse and understand their own appetite for risk, capacity for loss and calculate protection shortfalls etc. only involving the financial planner at the appropriate juncture.

The technology suppliers will need to continue to offer high levels of configurability to allow future hybrid propositions to develop. Configuration capability has been built into many of the current suppliers software and we would expect this to continue to be an increasingly important part of advice firms' requirements.

The revenue models we are seeing are typically based on one-off, annual, fee based and monthly charges. Significantly, more of the advice firms we talk to are seeing Hybrid Advice technology as a means of driving recurring annual revenue, based on fee income.

The spectre of AI

The curve ball heading towards advice technology is the incorporation of Artificial Intelligence into the advice process. Potentially there are parts of the advice process which could be supported more easily than others through AI, in particular the support for guiding people through the early stages of a journey.

However, it is not unreasonable to expect that if an algorithm can be written to support the complexity of human beings, it will be AI that gets closest first and thereby changes the landscape of advice as we know it.

Hybrid is a much more natural next step forward for most existing businesses.

SUMMARY

Whereas true Robo Advice never really got going, we are already seeing Hybrid Advice models appealing to forward-thinking advice practices. They can see the potential in how this technology can create more capacity for financial planners, produce propositions that appeal to a wider audience and support the demands of Consumer Duty.

Hybrid Advice builds on the back of current technology trends, augmenting current tech stacks and creating good client experiences. It will help service more clients, put more efficiency into processes and drive the cost to serve downwards.

It is not a mature technology, but there is enough for some firms to consider that this is the right time to start building out their Hybrid Advice services. It is evolving quickly with new entrants coming into the market all the time, driving the market and improving the quality of what is available.

The client barriers to using technology have largely been eroded since COVID. They now see interaction with technology as 'normal practice' and both adviser firms and technology vendors can see the potential opportunity.

There's no doubt that Hybrid Advice will only evolve and is certainly here to stay.