Enhanced Hybrid Roboadvisor: Meet Wealth Client Segment Needs While Creating a Cyborg Advisor

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Initiatives: Financial Services Technology Modernization and Transformation

Wealth management firms are steadily moving from a self-service to a hybrid, roboadvice model, but most still focus on mass affluent investors and their advisors. Wealth management CIOs must enhance their hybrid robocapabilities to support all client segments, as well as the emerging cyborg advisor.

Overview

Key Findings

- According to the 2020 Gartner Wealth Management Survey, the vast majority of wealth executives said internal technology that does not meet their needs is a problem at their firms. Even more indicated that client-facing technology that fails to meet firm requirements or client needs is an issue.

- Although firms have developed automated advice solutions, often focused on self-service for mass affluent clients, most have yet to thrive. Gartner's last client experience survey shows that the percentage of clients interacting with their providers using technology only (i.e., self-directed) is 7%, and mass-affluent clients are less digital than high-net-worth (HNW) clients.

- While many wealth management clients only interact with their advisors in person (41%), the majority (55%) incorporate technology into some combination of advisor, client or equally technology-driven experience. Hybrid solutions appear to be a favorable approach to the advisor/client wealth management experience.

Recommendations

Wealth management CIOs driving financial services digital business strategy and innovation should:

- Create hybrid roboadvice solutions that scale to meet the needs of all client and advisor types by enhancing existing capabilities for broader audiences, rather than creating separate, segment-specific solutions.

- Support client service needs by building off-ramps at any point in the process to bring in live financial advisors, but don't abandon self-service service capabilities.
Introduction

Roboadvisors — or more accurately, automated advice engines — have existed for more than a decade, yet few are profitable, and the number of independent roboadvisors who fail continues to grow.¹ Stand-alone financial technology (fintech) firms are not the only ones struggling for success, however. Many well-known financial institutions that have acquired or created their own automated solutions struggle to grow their offerings, and others have moved away from some roboofferings.²,³,⁴ Nevertheless, roboadvisors still can play an important role in:

- Creating new revenue streams
- Improving client and advisor experiences
- Optimizing and transforming wealth businesses

And although some continue to shutter, others continue to emerge, both from fintechs and established wealth firms, and oftentimes in partnerships.⁵,⁶,⁷,⁸ It is encouraging to see continued investment in the automated advice space, but wealth management firms must move away from offering only self-service, do-it-yourself (DIY) offerings with limited investment options, geared toward only mass affluent audiences (individuals with between $100,000 and $1 million in liquid financial assets and more than $75,000 annual household income). Instead, firms should take roboadvisors’ existing capabilities and integrate them with advisor and firm technology, such as expedited onboarding, a better user experience (UX), automated rebalancing, tax optimization, algorithmic risk tolerance and portfolio allocation.

In addition, they should integrate with client-facing channels to create an enhanced robosolution that meets all client segment and advisor preferences and needs (see Figure 1).
Enhanced Hybrid Roboadvisor: The Near-Term Future of Automated Advice

This research explores:

- Hybrid roboadvice solutions’ place in wealth management firms’ near-term priorities
- Four current approaches to roboadvice
- Hybrid roboadvice’s move to the next level with solutions that serve all advisor and client types

Analysis

Hybrid Roboadvice Solutions in the Near-Term

Too many wealth management leaders have viewed roboadvisors as a self-service tool for mass affluent investors and assumed that associated cost savings would allow them to serve this segment at scale. Some had even predicted two trillion dollars or more in roboassets by 2020. But even with the most
liberal estimates, and as Gartner predicted in the last iteration of this note, the industry is still woefully shy of even approaching a quarter of that number. 9

Firms that have quickly rolled out a table stakes solution have, in many cases, not realized the results they expected, possibly because their offerings do not appeal to a broad range of investor types. Part of the problem might lie in the fact that in Gartner’s survey of U.S. HNW clients, less than 6% interacted with their provider only using technology. More than four out of 10 worked only with people when interacting with their provider. However, the majority demonstrated some level of balance between advisor-driven, client-driven or equal technology usage, demonstrating the need for a hybrid approach (see Note 1).

Roboadvisors were not promoted as trading platforms for self-service investors. Instead, wealth management firms positioned roboadvisors as simply automated advice solutions, providing a level of guidance, risk assessment and portfolio selection, for example, that they could get from a traditional advisor. At the same time, firms could offer this service at a more competitive price point, with a lower entrance bar because of the cost savings automation could bring to the process. COVID-19 certainly has accelerated digital adoption for wealth firms. Gartner has seen an expected increase in spend in both advisor supporting technologies for remote work, as well as client facing technologies. More than four out of five surveyed advisors indicated they can video conference with their clients, but many roboadvisors did not take this hybrid approach (see Note 2).

How Hybrid Roboadvice Solutions Can Be Successful

The firms that have garnered the most assets under management (AUM) don’t take a pure self-service approach, but instead offer a hybrid solution. Rather than a pure DIY roboadvisor, hybrid roboadvisors offer access to advisors — in some cases, highly trained, experienced advisors, such as certified financial planners (CFPs). For example, it is estimated that hybrid solutions, such as at Personal Capital and Charles Schwab, have tens of billions in assets under management, and Vanguard has over $210 billion in AUM. 10

What these and other firms have in common is some way for a client to interact with an advisor, often a CFP. These interactions take place via a telephone call, videoconferencing or, in some cases, in a branch office. These solutions move beyond simple algorithmic risk tolerance and portfolio selection, bringing in financial planning, aggregation technology and human collaboration to tailor and customize an individual client solution.

This is not to say that self-service should be avoided, as it is a preference for some clients, as evidenced by the fact that firms such as Bank of America, Charles Schwab and now even Vanguard offer both options for clients. The hybrid approach lays the foundation to build an automated advisory experience that meets all client expectations, whether the technology experience is client-driven, collaborative or advisor-driven (see Enhance Collaboration Capabilities in Client-Facing Technology to Improve the Digital Experience).

However, most firms cannot offer an enhanced hybrid solution yet because their client-facing technology does not meet basic client needs. In fact, 78% of surveyed wealth executives said that client-facing
technologies not meeting client or firm needs is an important focus area, yet only 26% felt confident in their ability to solve this challenge (see Note 3).

Four Common Approaches to Roboadvice

Given the current state of the market, technology capabilities and client preferences, the first decision wealth management leaders must make is whether or not they want to offer roboadvisors at all. For those who do, Gartner has observed a number of different approaches. Most still tend to focus on a self-service method, since firms looked at roboadvisors initially as a way to reach an underserved market and create new revenue streams cost-effectively.

Some, however, have also built in hybrid approaches that incorporate advisor involvement (or support, at least) from a firm or partner call center representative or advisor. Based on multiple interactions with wealth firms and vendors globally, via inquiry calls, briefings and engagements at conferences and networking events, Gartner has identified the four most common approaches.

Directing Away With No Involvement

This approach is often deployed by wealth firms that don't offer a roboadvisor or do not intend to support mass affluent clients, or even clients with lower amounts of investable dollars. This approach is usually undertaken by independent advisors, boutique firms or those catering to ultra-high-net-worth (UHNW) investors. Most advisors at established retail brokerage firms will not get paid for client accounts under $250,000 in investable assets, and many trust or private client firms will not touch an account under a few million dollars. Some require a $10 million minimum and a $50 million average.

This doesn't mean that prospects who don't make those minimums won't approach them. They may also be looking for ways to support relatives or peers of wealthier clients who don't currently meet the minimums. Rather than risk upsetting a current or potential client by failing to offer any solution at all, wealth firms will recommend exploring fintech or retail robosolutions that might better meet the client's needs. This strategy can be risky for a number of reasons.

For example, with roboadvisors shuttering (as mentioned earlier in this research), firms may not want to risk sending prospects to a fintech, retail or competitor solution that might not be around long enough to serve them. Depending on their fees — usually around 25 basis points — it is estimated that roboadvisors need to have an average of more than $15 billion in AUM to be profitable. In the U.S., a few firms such as Wealthfront and Betterment are in that range, but most startups in Asia/Pacific (APAC), Europe and North America don't even come close.

Many competitor-owned solutions don't fare much better in the AUM space; thus, leaving only retail players such as Charles Schwab, Fidelity, Vanguard and Empower's Personal Capital that have the AUM in their robosolutions — most likely to keep them afloat. However, those assets may grow and move into those firms' other offerings and never return. Not surprisingly then, directing away is becoming less appealing for established wealth firms.
**Directing Away With Oversight**

Another option for wealth firms that don’t want to create their own robosolution is called directing away with oversight. In these cases, advisors direct their clients toward another firm's roboadvisor, but retain investment oversight and can even charge a fee for setting up and advising on those assets. In these situations, the platform, algorithms, custody and investments/models are coming from the robosolution. Most will allow firms or advisors to “white label” the solution so that communications, landing pages, statements and other communications reference the advisor or wealth firm, but most of the experience is driven by the robosolution provider. Some solutions allow advisors to pick their fees, adjust the portfolios slightly and other activities; however, rebalancing, onboarding and other tasks are handled by the other firm's platform.

In this approach, advisors can reduce risk with regular client contact, even with those who wouldn’t meet their traditional minimums, and can grow them until they need full advisory support. The white labeling helps to maintain the firm relationship, and the ability for advisors to be compensated makes them more likely to direct clients toward this solution when it makes sense for the firm. Betterment for Advisors, Nest Wealth Plus, Charles Schwab's Institutional Intelligent Portfolios and RobustWealth are examples of solutions that play in this space.

**Customized Partnership**

For some firms, simply white labeling a fintech solution will not go far enough toward creating a truly differentiated offering. Wealth firms may accept that they don't have the time or talent to create the UX, automated onboarding, rebalancing, algorithms and other functions that the fintech has already created. But these firms are not willing to give up complete control of the client experience and asset management.

In these cases, wealth management firms can differentiate their solution by:

- Developing their own risk tolerance assessments
- Creating their own proprietary model portfolios using their institutional asset management team
- Providing custom proprietary research
- Integrating the solution into existing client portals to create an experience unique to their firm

This is an approach for firms that want to create a unique offering, but without starting from scratch. Examples of firms that have followed a similar approach include Citi's partnership with Invesco's Jemstep (now intelliflo office), LPL's partnership with BlackRock's Future Advisor, and Citizens Bank's partnership with SigFig.

**Homegrown**

This is for wealth firms that want to create their own solution and approaches to offer to multiple audiences, including DIY clients, internal advisors or nonemployee advisors who have custody, clearing
or other relationship with the firm.

In these cases, firms will not simply white label or modify existing fintech, but will work with established technology firms, outsourcers, consultants, fintechs or a combination thereof to design and create a truly unique and controlled solution. Some well-known firms that have taken this approach include Vanguard, Charles Schwab, Bank of America, Santander Bank and Commonwealth Bank of Australia. This approach allows firms enhanced control and offers customization. In addition, internally created solutions can be monetized and lead to additional revenue streams, whether via partnerships or even by exiting the business and selling the technology to a vendor.

From Hybrid to Cyborg: Taking Enhanced Roboadvisors to the Next Level

A shorter title for this research could have been “You’re Doing It Wrong.” Not only have many wealth firms targeted the wrong client audience for roboadvisors, they neglected the audience that could benefit most from an automated, enhanced UX — their own financial advisors and relationship managers. Even firms that have launched roboadvisors are now finding that the digital experience for their mass affluent clients is in some ways superior to what they offer their HNW or even UHNW clients. For instance, roboadvisory solutions have integrated a number of functions to create a collaborative, automated client and advisor experience, including:

- Aggregation
- Videoconferencing
- Client vaults
- “What if” calculators
- Goal selection
- Tax optimization
- Risk tolerance questionnaires
- Asset allocation
- Onboarding
- Financial Planning
- Lending
- Banking
- Insurance
- Refinancing
Unfortunately, the only clients and advisors sharing in this experience are those who choose or support the roboadvisor offering. If that same client walked into a branch office, met in their home with their advisor or dialed into a contact-center that supports the HNW client, they would have a different experience. In these cases, more proficient advisors who were selected to support higher-value clients are actually having a less-integrated, less-automated, less-holistic experience. Why the difference?

**Why “Simple” Roboadvisors Are No Longer Sufficient**

Most roboadvisors are built on a new platform that handles relatively simple investment options and account types. It’s not very difficult to open a custodial account, select limited portfolios of exchange-traded funds (ETFs) or mutual funds, and periodically rebalance them. But advisors who support HNW and UHNW clients construct much more complex portfolios that often include private equity, private debt, real property, hedge funds, commodities and other financial instruments. Even more retail-focused advisors may be building bond ladders, using derivatives and building more tailored and customized portfolios.

In addition, many advisors are opening multiple accounts, such as brokerage, trust and core banking solutions, on multiple platforms. This adds another layer of complexity to onboarding, portfolio management and reporting (see Banker’s Guide to Advisor-Supporting Wealth Management Capabilities in Core Banking Systems). As evidenced in that research, however, some core banking platforms are beginning to add roboadvisors for advisors or collaborative roboadvice solutions to their offering. Many of these legacy solutions are aging, however, and are not properly integrated, making it more difficult for firms to create the same advisor/client experience as fintech startups that focus on retail clients’ needs.

Wealth firms are well aware of this inequity. Seventy-two percent of Gartner survey respondents said internal firm technologies that do not meet their needs was an important focus area, while only 34% were confident in their ability to do anything about it (see Note 3). In fact, more than nine out of 10 executives surveyed selected both client-facing and internal technologies as a problem at their firm.

To properly serve their primary audience, wealth firms must focus on building an enhanced portfolio and advice solution for HNW and UHNW clients, as well as advisors. The solution must provide a unified, scalable experience to support all client types, from discretionary to self-service and everything in between.

**Why “Cyborgs” May Be the Answer**

In the near future, wealth management CIOs will be asked to build an even better advisor-client experience then current hybrid robosolutions that cater only to the mass affluent market (see Integrate Advisor-Supporting Wealth Management Technologies Into Digital Platforms to Accelerate Adoption). By enhancing these solutions to include complex portfolio construction, alternative assets, broader product sets, deeper financial planning, onboarding of sophisticated client account types and artificial intelligence (AI) powered risk alerts, firms will begin providing an experience surpassing those currently available. This will free up valuable advisor time to focus on high-value activities — such as prospecting, advice delivery and marketing — and usher in the era of cyborg financial advisors.
A cyborg advisor is a financial advisor whose physical abilities are extended beyond normal human limitations by the use of existing and emerging technologies.

Granted, the technology is not built into their physical bodies in a sci-fi-like manner, but it allows them to perform activities in a much faster or more efficient manner than they could have in the past. By using combinations of AI and automation, these cyborgs can accomplish certain tasks far more efficiently and frequently at a scale that no single advisor could attain without these capabilities, including:

- Scanning data
- Mitigating risks
- Eliminating bias
- Rebalancing/optimizing accounts
- Predicting next best actions

Much like champion chess players can be beaten by AI (but AI-powered humans can beat pure AI), technology will not replace advisors, but will instead make them even more valuable.  

Firms should focus on creating an enhanced experience that is not disjointed from existing offerings so that the solution can both scale and support all client types and advisory approaches. For example:

- A self-service client can begin with a simplistic advice solution, but upon meeting entry criteria, graduate to a solution that supports more complex portfolio needs.
- Collaborative clients can start a process online, then begin working with an advisor who may be able to direct them to the best platform for their needs, or even take over the entire process.
- UHNW advisors can begin by driving the entire experience. However, if they determine that even the most sophisticated clients want to work in tandem or be able to do some activities on their own, they can expose roboadvisor platform capabilities to the client via a portal.

To accomplish these things, firms must create a digitally enhanced advice solution and integrate the most important advisor-supporting and client-facing tools to support a solution that serves all segments. Cyborgs may be the answer.

Evidence


2. Investec Withdraws From Over Hyped Robo-Advisory Market, Finextra.

3. ABN Amro Shuts Down German Digital Wealth Manager Prospery, Finextra.

5 Franklin Templeton Partners to Launch New Robo-Adviser Tango, InvestmentNews.


8 Barclays Introduces Robo Advice Service Requiring Minimum Investment of £5,000, Private Banker International.


12 Ai Should Augment Human Intelligence, Not Replace It, Harvard Business Review.

Acronym Key and Glossary Terms

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<td>White labeling occurs when a product or service removes its brand and logo from the end product and instead uses the branding requested by the purchaser. A white label product is a product or service produced by one company that other companies rebrand to make it appear as if they had made it.</td>
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Note 1: 2020 HNW Client Experience Survey

From December 2019 through January 2020, Gartner surveyed 826 HNW clients in the U.S. These data and descriptive analyses come from the 2020 Gartner Customer Experience Survey. HNW respondents in the U.S. were defined as having investable assets of $1 million or above, and age 18 and over.

Note 2: 2020 Gartner Wealth Management Advisor Effectiveness Survey

The 2020 Gartner Advisor Effectiveness Survey was designed to respond to wealth management business leaders’ most pressing questions regarding the industry’s advisory force. In the late third and early fourth quarter of 2020, Gartner surveyed 766 participating advisors from 15 firms who responded to questions related to performance, engagement, time allocation, technology tools usage and their digital capabilities.

Notes 3: 2020 Gartner Wealth Management Survey

The 2020 Gartner Wealth Management Survey examines the collective priorities of wealth management executives and their confidence in executing effectively against those priorities. In the latter part of 2019,
Gartner surveyed 88 wealth management executives to better understand the initiatives that industry leaders were focused on.

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Recommended by the Author
Integrate Advisor-Supporting Wealth Management Technologies Into Digital Platforms to Accelerate Adoption
Enhance Collaboration Capabilities in Client-Facing Technology to Improve the Digital Experience
Insights for CIOs on How High-Net-Worth Clients in the U.S. Work With Wealth Management Providers
The Digital Platform: Position Hybrid Robo 2.0 as a Key Success Factor
Eliminate Bias Now: Support All Wealth Management Client Technology Preferences in Any Environment

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