As Hayne heats up, Westpac explores rise of robo-advice

Technology could change the financial advice game

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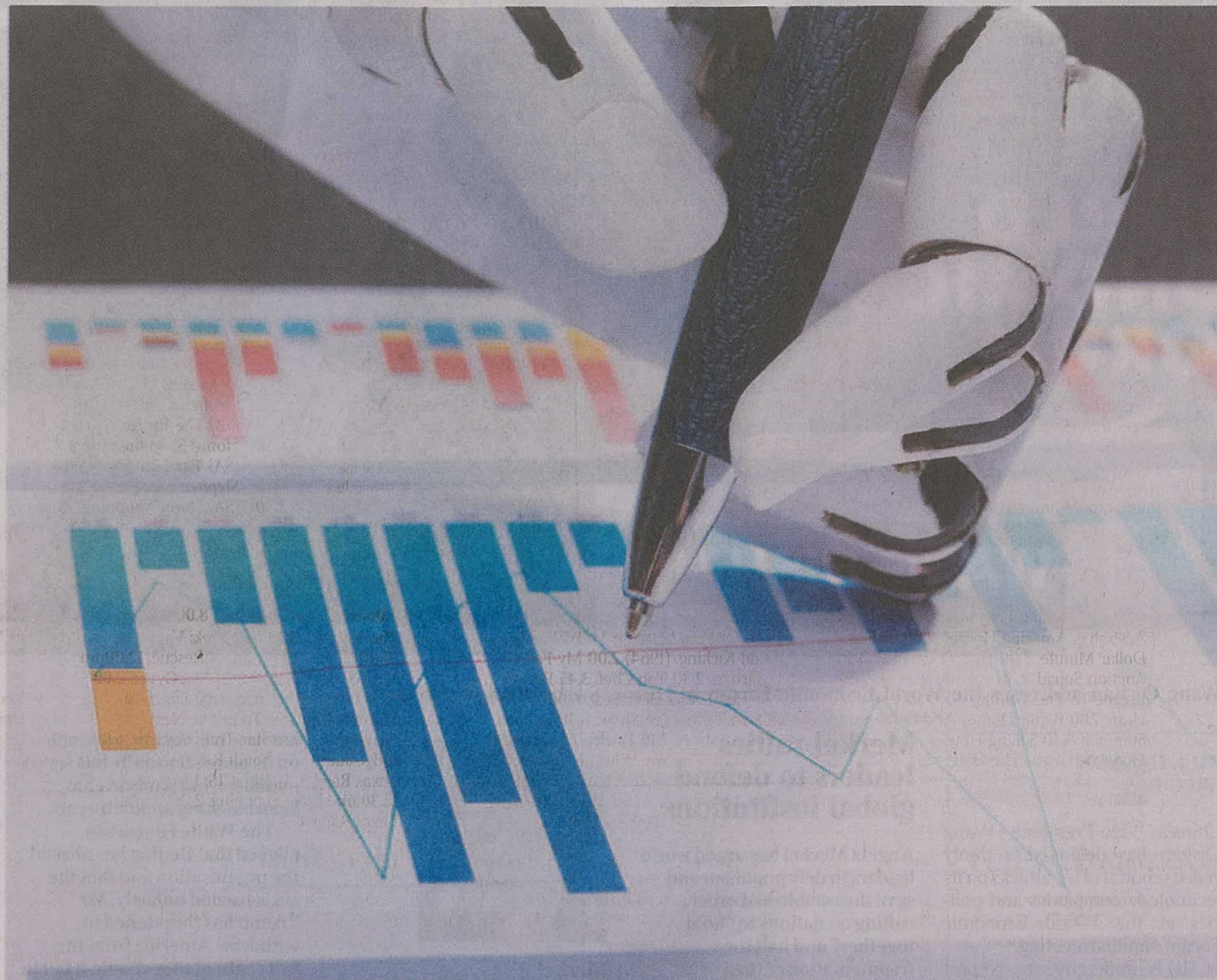
Westpac couldn't have picked a more challenging time to assess a sale of its scandal-prone financial planning division.

As the Hayne royal commission report looms large, the bank is said to have encountered difficulty generating interest in the business, even though it was offering up its own customers through a long-term distribution agreement.

Potential buyers are keen to hear what Kenneth Hayne has to say on the vexed issue of financial advice, while would-be acquirer IOOF has licence conditions, a shaky pensions deal with ANZ and a battle with the prudential regulator to keep it busy.

Sources say Westpac is also weighing joint ventures, partnerships and alliances and closing the business, although a sale may be preferred to keep a lid on any redundancy costs.

Alongside those considerations, the bank is also understood to be keenly assessing options in the burgeoning robo-advice industry.



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Robo-advice — which is yet to take off in a big way in Australia — is typically provided digitally through automated, algorithm-driven platforms, meaning little to no human involvement. And in an ideal world, no conflict or sales pressure.

Westpac — the only major bank that has committed to retaining the lion's share of its wealth business — had 803 salaried and aligned planners as at September 30. Any big shift into robo-advice would significantly reduce planner headcount.

At the bank's full-year results, chief executive Brian Hartzer advised through several options for its planning division and conducting a cost-benefit analysis.

"It is about ... how can we continue to make sure that good quality advice is available economically to our customers while also just recognising some of the cost inherent in it," Hartzer said.

Hayne may have a few suggestions on the model when he lodges his blueprint with the federal government by February 1, but that doesn't mean Westpac can make the numbers stack up.

A BT Financial spokesman said the group continued to investigate options, but didn't comment further.

"It is important that people are complex regulatory environment and BT continues to investigate how we can assist customers through the provision of digital help and guidance," he said.

The topic of robo-advice is an interesting one as Australia figures out how to deal with conflicted remuneration and vertical integration, without the customer harm that was exposed in the royal commission.

Of course, any such robo-advice algorithm should direct customers to a broad range of products rather than being used as a sales tool.

In the US, the robo-advice industry has grown, albeit not exponentially, and the concept is gest fund managers also look to get a foothold in the market.

In 2015, AT Kearney predicted the value of robo-adviser-controlled assets under management would swell to $US2.2 trillion ($3.1 trillion) in 2020. Companies including trailblazer Betterment and Wealthfront were early robo-advice companies and have been followed by the likes of Fidelity Investments and BlackRock, which acquired FutureAdvisor.

The Australian experience has been less flattering, as players such as Macquarie and National Australia Bank dived in, and then either scaled down their plans or retracted them altogether.

In Macquarie's case, it was the spearheading the push that led to a change of strategy. Robo-advice is available through Macquarie's wrap and platform business, but it is not a direct online proposition through its website.

Just over three years ago, NAB rolled out what was called its Prosper service, which asked customers about their finances and goals and provided individualised advice on super and insurance. The program is thought to have ceased, which is probably related to NAB's decision to exit the wealth sector.

The main advantage of robo-advisers is that they are low-cost alternatives to traditional financial advisers. In the US, fees tend

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account balance. Locally, companies including InvestSMART, Ignition Direct, Quiet Growth and Raiz Invest (formerly Acorns Australia) are having a crack at robo-advice. All have slightly different models.

Industry observers canvassed by this column said Australia had a lot of catching up to do on robo-advice.

Several firms providing robo-advice are understood to give consumers an option to invest in one of several model portfolios, which often have high fees.

Other criticism has been levelled at elements of the industry for being robo-advice "product floggers", and for asking customers only a limited number of questions on finances and risk appetite.

Part of the issue curtailing robo-advice becoming more widespread in Australia is its financial advice regulatory regime, according to Hillary Ray, a financial services partner at Cowell Clarke commercial lawyers.

"Until those regulations are transferable in an online environment I think we will be held back," she says of documents like product disclosure statements and statements of advice. "The Australian Securities & Investments Commission has a very difficult job regulating a market with the regulatory requirements that exist [in legislation]."

She is adamant that millennials will demand more robo-advice options, particularly those that are accessible via a mobile phone.

"There is all this opportunity for online products," she said.

A wide-ranging survey KPMG conducted of 1500 bank customers in 2016 presented a compelling case for robo-advice, finding that across generations, income and gender more than 75 per cent of respondents indicated they would be "very likely or somewhat likely" to consider it as an option from their bank. That figure was 80 per