THE IFA's Wealth Gram

LA TRIBUNE MENSUELLE DES MEMBRES DU GSCGI
wealthgram@gscgi.ch • www.gscgi.ch
Vol. V - N° 59 - Décembre 2016

AUTOMATION, INFORMATION SYSTEMS AND RESPONSIBILITY

actionfinance

Automation, Information Systems and Responsibility
within the Financial Advisory Profession

Are the Japanese automated Rail Road and the Tokyo underground information systems an example for the *(retail client)* Financial Advisory Industry? What strategy needs to be implemented in order to keep up with changing market conditions worldwide and newer client expectations?

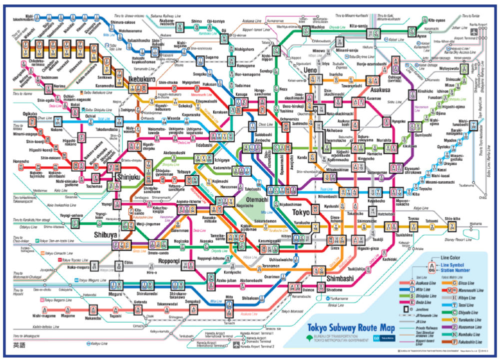
My family and I have just returned from a leisure journey across Japan, during which we travelled over 3,000 Kms and experienced the Japanese Rail Road as well as the Tokyo underground systems. Japan's population is about 127 million and is expected to decrease to about 90 million by the year 2050. About 30% of the population commutes daily by train and the underground systems, not counting the 20 million tourists visiting each year Japan, who do not speak Japanese.

This great experience tells us a lot about how a society can rely successfully on automation and information systems. It also helps us take a new look at the two main activities of the Financial Advisory profession: Portfolio Management and Client Relationship Management. Although both domains are gearing toward more efficiency, Client Relation Management is only now beginning to respond to the increasing expectations of higher automation from both established and new investors.

The stronger competition in the financial industry and the increasing regulatory pressure are forcing banks and independent financial advisors to boost their productivity while lowering costs. To achieve this, there is only one solution: implementing automated systems, while keeping up with the quality of service. On the other hand, automation *(or even a reduction in the price of services)* will obviously not be the cure-all. The foundation for any successful automation will be the trust placed by the investor into the competence of their Advisor. The next two key factors will be the user-friendliness of the tools provided to clients, as well as the power and simplicity of the information they receive.

Could we achieve better performance in Portfolio Management by delegating some tasks to computers?

Definitely yes, this is the way to go! But with one caution: the most fundamental ingredient in our profession is, and will remain, human competency. Automation brings more power, but we should always keep in mind that "with



AUTOMATION, INFORMATION SYSTEMS AND RESPONSIBILITY

greater power comes greater responsibility".

Let us take the subject of client services around income tax. It is important to recognize that we are living through a profound paradigm shift. Until recently, a significant proportion of foreign clients' wealth held in Switzerland was undeclared in their country of residence. This situation has profoundly changed.

One key issue now is tax suitability: how to make portfolio allocations that take into account the impact of income tax? How could a Portfolio Manager ever deal with the complexity of foreign tax systems? Is it even possible?

It is clear that 2017 will be the year of 'tax-suitable' financial investments in Switzerland. When the impact of taxes is measured in thousands of basis points, ***'performance after tax'*** is obviously the key factor. It is not easy to deal with this added complexity, but there is no choice: either financial intermediaries will be able to answer those new demands of their clients, or they will have to quit the business. And those who believe that robots or outsourcing are the "miracle solution" that will save them from personally rolling up their sleeves and solving that issue will also fail! It also takes human competency to solve that issue.

So, how should a financial intermediary tackle it? First, each portfolio manager, either independently or as part of a team, should focus on one or a few residence countries for his clients. Deciding on these limitations may be hard. The second challenge is to acquire the new competencies needed to master each of these foreign tax systems: portfolio managers will have to learn rules they are not familiar with, and be able to predict the tax impact of their investments *(this requires **training**)*. Then, with trained and informed employees/partners, financial intermediaries can reorganize their business in order to meet that challenge.

The key point is that automation is 'the' pre-requisite, but it takes far more than that. Portfolio managers will need software tools that help them detect whether a financial instrument is tax suitable or not. And, on top of that, they will have to learn to estimate the impact of income tax on the investments on their clients, or be prepared to lose them… because these clients might withdraw their assets and go to the next-door portfolio manager who has already learnt to do that for a specific country. Therefore, human competency remains the foundation of our profession.

This is indeed a big debate. Will Portfolio Managers delegate specific tasks to Robo-Advisors? Will software robots risk replacing human advisors?

First of all, automation in the financial advisory field is nothing new. Since the early 2000s, most investment managers have implemented a Portfolio Management System, or at least a third party risk metrics system, in order to monitor the portfolio performance of their clients' assets under management against various indexes and benchmarks. Once the investment manager has gone through the ordinary due diligence investment process, he can already perform a primary selection and comparison of investments.

The issue then, is simply how to also include criteria for tax suitability, assuming that the relevant data are available – it can be obtained through public registrars and a number of private financial information vendors such as SIX, Bloomberg, Reuters, Dow Jones, Fitch, Morningstar and others. An investment manager could also personally meet representatives of the upper management of listed companies they want to invest into. In any case, most of financial intermediaries will have to implement a more sophisticated database for the securities they might select that takes these tax parameters into account, if that is not already done otherwise.

Let us remember, however, that a Robo-Advisor is *(as the name indicates)* only a servant and it is never a master. The process of defining the strategic guidelines of the investment strategy is still the most important part and it will remain a human activity. Computers never "decide" anything in portfolio allocation: they only execute faithfully what they are being told to do, for the better or the worst *(software or data errors can have catastrophic consequences)*. Again, with increased power of automation, comes increased human responsibility of financial advisors toward their clients.

And let me issue a warning: we should stay simple and realistic about "automation". We should stop listening to the sirens of providers who claim they will solve all your problems - with "full outsourcing" or some "miracle software" - if that leads to unmanageable complexity or castles in the air. We must remain in control of our businesses.

Investment managers must be aware that no single algorithm exists able to combine multiple volatile variables with "multidimensional economic forecasting model" that works effectively for everyone's needs! Suppose that a team of very ingenuous investment managers, economists,

THE IFA's Wealth Gram
LA TRIBUNE MENSUELLE DES MEMBRES DU GSCGI
wealthgram@gscgi.ch • www.gscgi.ch
Vol. V - N° 59 - Décembre 2016

AUTOMATION, INFORMATION SYSTEMS AND RESPONSIBILITY

traders, mathematicians, astrophysicists, nuclear scientists and tax experts had invented 'the' Robo-Advisor that beats continuously the economic forecast of most of his human competitors. Do you truly believe that this A-team would just go on holidays letting their creature do all the work alone, and they would get a good income doing nothing from then on? No, because this kind of Robo-Advisor only exists in dreams.

For the same reason, the Swiss market place is not talking about "tax optimization" right now, but only of "tax suitability", as trying to find suitable financial instruments is complicated enough already. Fancy mathematical algorithms will have to wait. The good rule of thumb is: if you do not have a clear idea of what it does, it is not for you!

More realistically, a Robo-Advisor with a smart and consistent portfolio investment model, associated with the number-crunching power of a computer will definitely speed up the investment decision process. It is sure that the battle for successful investment in the future will also depend on the ability of investment managers to analyse Big/Small data and to detect/disregard incorrect information *(such as the one which affected recently VINCI shares after media picked up a hoax report)*. On the other hand, ***a Robo-Advisor should be used first and foremost as a risk-control system: it can be programmed to detect anomalies and errors, typically to warn you if you risk an excessive tax bill. But, at same level of automation, human competence and creativity will remain the single factor that makes all the difference.***

Regarding the efficiency aspect in client relationship management, what is the most difficult task for the Client Relationship Manager *(hereafter "CRM")*?

It is to manage the client relationship. It sounds obvious. To successfully achieve this task, the CRM should have superior communication skills, such as listening to the client, understanding him, and then proposing a custom-made solution, which the client will fully understand and agree upon. The CRM may have a very expert knowledge of the investment management process, but that is not necessarily what the client expects. However, the CRM financial institution needs to forecast possible economic scenarios.

What would be the added value of a human client relationship manager versus an automated one? Can Robo-Advisors be more efficient in managing the client relationship than humans?

Looking at advertised financial investment proposals, presently no offer displayed in written documents 'should be construed as a recommendation to purchase or invest in a financial product'. Most laws consider two types on investors: qualified investors *(experienced)* and non-qualified investors *(the majority of private persons)*. The common warning in the financial advertising ads stipulates that a *(retail)* client investor must seek advice from his personal advisor. What if this investor has not a personal advisor? Most of the private persons do not have a personal advisor. Even if the investor has a personal advisor, is his advisor able to give adequate guidance and needed information about that particular recommendation? Is he immediately available? How much knowledge *(KYC)* of this particular investor has a CRM within a help desk *(or a central pool of CRMs)*?

The most relevant factor in a two-way communication is to understand the investor, to understand his investment needs and risk preoccupation, and to offer a custom-made proposal. Can these tasks be better accomplished by a human person rather than a Robot?

Until now, there aren't many options available to investors, because very few fully automated solutions have been created. Indeed, first of all, the complexity for the financial institution to evaluate the risk that the client can assume heartedly and understandably requires a very good communication between the client and the CRM; second, the uncertainty about the investment proposal positive outcome makes the automation and monitoring of such a process a highly difficult task; and third, the client's personal financial situation will fluctuate during the course of the business relationship.

In addition, one of the probable reasons that financial institutions have not yet provided financial advisory via a Robo-Advisory system may be due to the preoccupation of a mistake occurring and discovering it much later with the financial institution bearing full responsibility.

Due to costly and unsuited experiences in the past - investments proposed to clients by CRMs in the mutual fund industry or with other sophisticated products, such as derivatives, or even with single investment recommendations - the surveillance & regulatory authorities in most countries have issued a hefty catalogue of safety and precaution measures to be disclosed to the retail investor. What if the Robo-Advisor does not inform properly the investor about the risks? Either way, the

AUTOMATION, INFORMATION SYSTEMS AND RESPONSIBILITY

client shall blame the financial institution. It does not matter if the advice comes from a human CRM or from an automated CRM.

The request to inform properly *(clearly?)* the investor about the risks of an investment is similar to the content of the instruction manual that a client receives and is demanded to read when he purchases for example an electrical appliance *(electrocution hazards and many ways how not to use the appliance)*. If the client has purchased that appliance because a salesperson *(CRM)* has recommended *(Advisory)* the item and then something goes wrong, can the client blame the CRM? What if the client has purchased the item without requesting any recommendation *(execution only)* and an accident occurs? Who is going to be liable?

Is the Client Relationship Management (CRM) activity going to become more automated?

Yes, definitely, but with a few cautions. In order to remain profitable, a CRM advising many retail clients, in comparison to the CRM advising a few qualified investors - who by definition are more wealthy and can therefore pay more for personal advisory services - needs to be exceptionally organized and in a very good health condition. This stressful challenge is colossal. Every CRM should take advantage of increased smart automation to enable him to devote his time in a more productive way.

The Robo-Advisor cannot replace the purpose of a CRM. Could a Robo-Advisor establish a good "personal" business relationship with hundreds of clients? It seems odd. Impossible. I believe that Robo-Advisors will become CRM's best friends. The CRM will be able to determine which tasks can be rendered in a more efficient way to his client.

Final destination: Geneva

It was a real pleasure to travel with the JR Shinkansen line at a speed over 250 km per hour and not to miss a connection with other local rail and ferry boat companies. All clean, all clear information, no stress, all about efficiency, but in case you were not sure about your itinerary, you could also ask your way to a rail station "CRM" located at the information counter, who tried his best to speak to you in English.

One way to improve the financial advisory service provided by the banking and financial industry to the *(retail)* investor, while reducing costs, would be to learn from the automation and the remarkable information systems today available in the Japanese Rail Road and the Tokyo underground.

Action Finance has developed a mutual fund automated retail client financial advisory & discretionary management platform project that enables the CRM to monitor the investment activities proposed directly by the automated platform to his client, according to the financial institution's mutual fund investment universe and its exclusive economic forecast.

This solution is a win-win for the client, for the financial institution, and for the CRM who can devote his time to other valuable tasks performed for existing or prospective clients.

Daniel Glasner
ACTION FINANCE SA
daniel.glasner@actionfinance.ch

Daniel Glasner:

Thanks to his wide-ranging knowledge in the areas of banking, governance, compliance (including risk management) and the mutual fund distribution business (including with respect to compliance), as well as wealth management, trading and also business reorganization, Daniel Glasner provides, as an independent board member, advice on strategy to both independent wealth managers and banks.

As the former Chief Executive Officer of a Geneva-based wealth management company mired in a turnaround situation, Daniel acted as the linchpin in securing a securities dealer's license for it under SESTA (the Swiss Federal Act on Stock Exchanges and Securities Trading) in 1999 and a banking license in 2003. Daniel delivers and actively manages turnkey independent financial advisory companies.

Answering to general investors' dissatisfaction and Fintech favorable reception, Daniel has developed a mutual fund automated retail client financial advisory & discretionary management platform project that enables the Client Relationship Manager to monitor the investment activities proposed directly by the automated platform to his client, according to the financial institution's mutual fund investment universe and its exclusive economic forecast. This white label platform is designed for all types of wealth management institutions including private or large retail banks.

As the former Chairman and an honorary member of the Swiss Association of Independent Financial Advisers (SAIFA), which is comprised of 200 members, Daniel Glasner is continuing to contribute to shaping the future of the profession of independent financial advisor in Switzerland.