Breaking Bad Thinking: The 'Advice Gap' and What to Do About It

Chapter 2 – A Paradigm Shift

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A Word from the Author

In chapter one of this series, I proposed there was no ‘advice gap’ and behaving that way was detrimental to the real problem, constraining the thinking required to make an impact to peoples’ financial wellbeing on a large scale. All the while we view the problem from the perspective of the traditional adviser or advice business, with traditional regulated financial advice as the currency, things will likely never change.

I did however suggest that advice businesses *can* still target this opportunity (new market opportunity rather than advice gap) if they so choose. I am aware I am currently speaking to (largely) financial advisers and advice businesses, so even though I made it clear that to rely upon advisers to ‘solve this problem’ is a mistake, my recommendations and indeed the tone of the entire paper will be geared towards advisers who do genuinely want to help ‘solve the advice gap’. For the sake of familiarity and ease of use, I do even still refer to ‘gaps’ when describing the opportunity at hand.

This paper will attempt to build a case for how to intentionally disrupt the advice market, followed by suggestions as to what that might look like. This will be from the perspective of the adviser, reflecting the changes required for advice businesses to be ‘set up’ for tackling these opportunities. I am basically saying ‘this is probably what you should do / how things will go to hit the level of scale required to solve the ‘gap’.

In the first chapter I made the statement that the biggest challenge is in motivating millions of people to do something they currently do not or don’t care about / want to do. This will be addressed in the third chapter and not this one.

Again, it is worth reminding anyone reading that this is merely my attempt at addressing a problem people seem to care about or believe is worth solving, which is only getting worse. The well-known phrase of ‘doing the same thing and expecting different results’ comes to mind and it is this ‘madness’ I am trying to avoid. So, maybe we should start thinking and behaving differently, or at the very least stop talking about the ‘advice gap’ when we are clearly not prepared to do anything about it.

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Part 1 – Disrupting the Market

"I think the more important lesson—a lesson that Blockbuster learned too late—is simply this: 'If you are unwilling to disrupt yourself, there will always be someone willing to disrupt your business for you.'"

Marc Randolph – CEO Netflix[1]

Market Disruption

The first paper in this series highlighted the need to view the problem differently. Letting go of the 'advice gap' term to help develop some wider thinking. I stated that advice businesses could get involved in this if they choose, but to do so would mean a disruption of their existing business model. If I am anything close to being right, the world of financial advice will look quite different in 10 years. Or rather, it will have to if we have any genuine intention of positively impacting peoples' financial lives on advice gap scale.

I am suggesting that disruption is required for the current market conditions / habits, the inertia of would be clients and the mindset of advisers. But how do we disrupt an industry intentionally to target a group of disengaged potential customers? Well, first we need to understand disruptive innovation and consider its implications, applying it to the financial advice market. That includes identifying if the preconditions for disruption exist and what they mean for any potentially disruptive activity. Then we need to ascertain what this disruption would look like and how it would be executed.

Note: this section will cover some elements of the recent essay 'The Evolution of Adviser Technology', but in more detail. If you would rather move straight to the solutions provided by this paper, I suggest reading the summary at the end of this section and then moving straight to part 2.

Disruption and Radical Change

In McGahan's Four Models of Industry Evolution, two forms of change are relevant to this discussion, namely 'radical organic change' (occurs through 'built-up resistance among incumbents to new technologies') and 'intermediating change (operational efficiencies derived from changing the interactions with existing consumers).[2, 3]

McGahan would suggest that what is required to fix the macro advice gap is a 'radical organic' change, providing a 'quantum' shift in customer value through easier entry / access to products. At a micro level, 'intermediating change' in the form of operational efficiencies is largely found through the redeployment or repurposing of existing technologies (at a conceptual level of technology – not the same as inventing AI for example). Also, 'non-architectural changes' could be leveraged in the form of different relationships and products through existing customer relations i.e. new service tiers that change the way in which providers interact with their existing clients.

McGahan's work is similar in nature to the more famous 'disruptive innovation', pioneered by Clayton Christensen and discussed in the previous essay.[4] Instead of the four-part model, Christensen refers to industry change through innovation, characterising innovation as either sustaining or disruptive in nature. In short, sustaining innovation maintains the products and services by adding new features within their current paradigm. Disruptive innovation however, transforms the current paradigm by creating new markets and modifying the value proposition expected by consumers.[5]

Disruption theory suggests that new market entrants come up with something of inferior performance to what currently exists based upon what customers value now. However, they offer different attributes which appeal to the under-served or low-end consumers which through continued improvements, move up the value chain. As performance improves to meet existing standards and the alternative attributes become more valued than existing ones, disruption occurs. [5]

As innovations begin, they do not meet the requirements of any level of customer and are therefore deemed irrelevant or inappropriate. But as they progress, the mainstream market begins to adopt them and the existing incumbents are killed off, so to speak. All the while the current incumbents have been adding new features or performance to their existing product (sustaining innovation), create a performance oversupply (the features do more than the customer needs so aren't really used) and making customers less likely to care about or pay for them. [5] Down go the incumbents.

Christensen later went on to split disruptive innovation into efficiency and new market-making categories. [4] In which, similarly to McGahan, efficiency innovations create significant improvements in operational efficiency and new market-making, well, you get the idea. Christensen remarked that by their nature, efficiency innovation doesn't create growth, but rather frees up cash, time and drives profitability. [6] Growth generally comes from the new market making innovation serving unserved or underserved populations due to price or access. But importantly, both methods create market disruption when the preconditions for innovation are available.

It is also worth noting that using disruption theory as a lens for this paper is based upon its ability to predict new company success or failure, at levels 40/50% better than any other business predictor or analysis model. [7] In addition, it is worth noting the evidence of disruption substantially favours new and smaller organisations, rather than large ones trying to pivot. In other words, financial advice firms or fintech companies may want to consider spinning out a separate company to chase after advice gap potential revenue. The mothership is too slow and very few ever succeed in changing course. [4]

What does this suggest?

- If you want radical change (such as closing the gap) you need to produce efficiency innovation and / or new market-making innovation
- Smaller / newer companies are more likely to succeed
- Products start off poor and develop new value structures eventually adopted by mainstream customers
- Current incumbents competing in sustaining innovation (adding new features within their existing paradigm) eventually die

Preconditions for Disruption

Simply put, the preconditions for disruptive innovation could be summarised as:

- A large enough potential market – including access to unserved, underserved or overlooked consumer groups, facilitated by technology to provide lower cost and accessible products with simplified features.
- Market stagnation – maintaining, by and large, the same processes for extended periods of times.
- Inefficient processes pervasive within that market.
- Technological advancements which become available and therefore potentially reengineered to suit an intended market. [8]
- Threat of obsolescence (radical organic change) – future success of disruptors killing off the competition

Let's check this against the advice industry

- A large enough potential market

Depending on what you read and the differentiation used, there are approximately 6 million people in the UK willing to pay for financial advice (but not at current prices) and a further 39 million people who fall into the more traditional idea of the advice gap, representing a £185bn opportunity for financial advisers. However, it is deemed not currently commercially viable for advisers to attempt to serve them, based upon current technology and other process inefficiencies. [9]

Furthermore, due to regulatory requirements and cost to serve, the industry has seen a wave of lower value clients being 'off-loaded', dumped or sold. This was reported back in 2017 as an issue and the minimum asset sizes seem to be creeping up ever since. [10]

Research also suggests that half of UK adults with £10,000 or more of investible assets (approximately 8.4 million people) did not receive any formal financial advice in the past year. Also, only 8% of UK adults received financial advice in total and only 1.3% of adults used online robo-advice. [11]

The current financial advice market is responsible for approximately £272Bn in AUM. [12] The vast majority of estimates for uninvested assets in the UK is circa £150Bn, representing more than a 50% market increase opportunity. More than 50% of the current industry… And this is not merely potential punters through a hard sell, but rather people who would be better off by receiving investment advice.

- Market stagnation - maintaining by and large the same processes for extended periods of times.

Taking a standard s-curve approach to the advice market (introduction, growth, maturity and decline) one could easily consider its position to be in decline. While financial advice is still lucrative enough in its existing form, the significant reduction in adviser numbers and the growing advice gap, might suggest some form of decline. However, if we were to take a more macro and elongated timeline view, we might say the advice market (if factoring in the scale of opportunity ahead and the infancy of the approach to capitalise on that opportunity), we could argue the advice market is set for growth mode.

It is all too easy to see the history in terms of length of time the advice market has been active, as some sort of indication as to its maturity or capacity for growth and innovation. However, much like the advent of the electric car, long standing existing industries can be shaken up through particular innovations or architectural / non-architectural changes, creating huge new profit streams. Industry life-cycles are notoriously difficult to see or predict. [2] Perhaps financial advice is no different.

Also, the standard operating model of financial advice is largely unchanged for many years. Advisers, paraplanners, admin staff as standard, with ever increasing costs of staff alongside increasing regulation. Adviser tech is also rather stagnant, with advisers currently utilising an array of service providers, many of which do not communicate with one another leading to masses of rekeying and other forms of duplication and wasted effort. See the previous essay for more detail.

Financial advice is also an ageing industry. With the average age of advisers reportedly being circa 55 years old [13], there could be a tendency to suggest advice is not completely cognisant of environmental change and thus has a skewed vision as to what is happening and therefore what will or needs to happen. One could also hypothesise that not just do advice tech companies ‘oversupply’ in terms of features beyond anyone’s real demand, but that advisers ‘oversupply’ in their current service (insisting on face to face rather than technological alternatives) and that this will change significantly.

- Technological Advancement

Indeed, the abundance of technology within wealth management might suggest technological maturity and thus industry maturity, which again may be misleading. The technology is largely dominated by ‘older’ tech stacks and is thus incapable of more up to date practices made possible by newer tech stacks. Again, see the previous essay for more detail on this.

- Threat of obsolescence

The problem with trying to initiate radical industry change is that there needs to be a genuine threat of obsolescence. To date, this has not been an issue given the average total earnings of UK advisers (employed and self-employed) is circa £90K/year. [14] Also, the current financial advice market is responsible for approximately £272Bn in AUM which is still growing. [12] Meaning advisers are still doing well for themselves and by and large improving year on year. This is far from an industry in trouble.

However, the threat of obsolescence comes in the form of new entrants or larger pivoting organisations capitalising on the points above to; soak up the lower value clients being off-loaded, create new products and services for different tiers of clients, create digital advice journeys and other products for peripheral (6million people) and general advice gap clients (38 million people) and drastically improve their efficiencies – all to improve profitability and thus grow.

Not only that, but the changes that would likely occur to provide advice and access in an affordable and palatable way, could radically change the way the business is conducted (true disruptive innovation). This is where the radical change and true innovation could cause potential obsolescence of financial advice as we know it in the future. Imagine a world where high touch financial advice was dead. Very few felt the need for face-to-face work and where automation and AI took the leg work out of the vast majority of background tasks that make up the advice process. Those not on board would be left behind. The difference in profitability between high value and low value clients would be reduced… It doesn't take much forethought to see a financial planning app on every phone in every pocket in 5 years.

It would appear we have the pre-conditions for disruption. I would argue it is not merely possible to disrupt the world of financial advice, but that for the 'advice gap' to be addressed, disruption is required and / or inevitable. The problem for current incumbents is that they see financial advice through their existing value structure and that is why they will ultimately suffer the consequences.

Applying Disruptive Innovation to the Advice Market

Building upon chapter 1…

Micro advice gap (peripheral clients)

If we take a view of the micro gap as an advice gap project as a whole, we could see a combination of efficiency innovation and new market-making innovation. Firstly, technological changes in software could alleviate much of the time to serve clients (and therefore cost), by reducing duplication of effort and so on. Further advances of technology could remove the need for as many admin and paraplanning staff, creating more profitable businesses as whole. This would enable advisers (if they chose) to target lower value clients within their existing model.

However, technological advances in the form of automations, new products and services and digital investment journeys, could provide immediate opportunities for servicing lower asset clients in new and innovative ways. More to come on this in the next part.

Macro Advice Gap

There is an element of top-down trickle that would likely begin to impact the macro gap. However, new market-making innovation could easily supplant the current paradigm for financial advice and create new methods of operating. This will be explored more in part 2. But as a reminder, innovations of this type are:

- Not 'good enough' for the current paradigm – lower quality, feature set or perceived value by the adviser

- Operate differently from the existing paradigm – possibly involving other non-regulated people, products or services, along with technology-based interaction.

Given everything discussed thus far and in chapter 1, I am inclined to suggest the model looks something like the one below. The important distinction here is the inclusion of what kind of disruption will target which end of the spectrum or which target audience (client or adviser). The efficiency innovation is the more obvious and expected one (with the inclusion of single-software technology as per a previous paper), whereas the new market making innovation is both the less obvious and the most impactful for the 'gap.

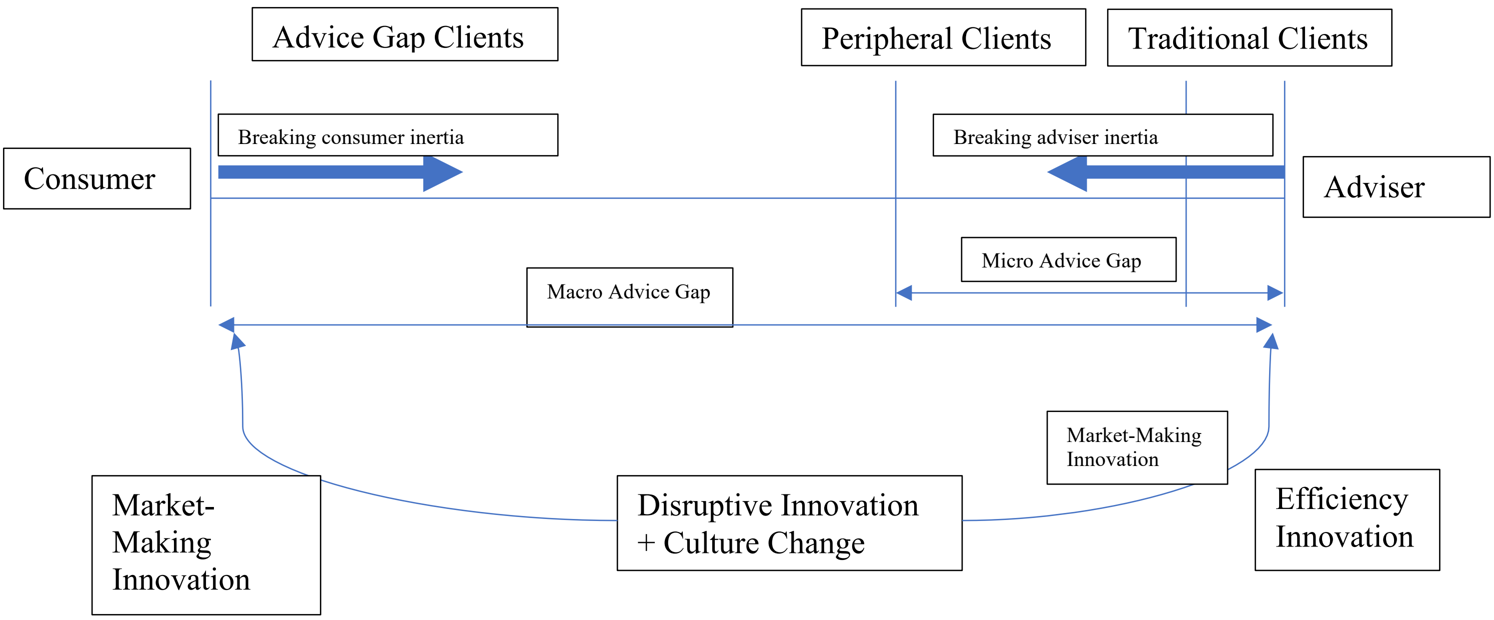


Figure 1. An overall model depicting the solution to the 'advice gap'.

Summary

My contention is:

The advice gap doesn't exist. Not everyone wants the traditional form of advice, so assuming we can stretch the existing model to cover tens of millions of people more is wrong. However, we do still want to stretch and improve the traditional model as part of the solution to what is a large market opportunity. I say 'market opportunity' rather than 'gap' so as to exit the blanket strategy of covering those potential targets with the traditional advice model.

This market opportunity will be coveted by many; financial advice businesses included. But if advice businesses want to do this, by definition their model will need to change and the advice industry will require disruption. While disruption theory shows us that smaller or brand new businesses are more likely to be successful, the majority of IFA firms could likely adopt different tech, philosophies and processes to address this market opportunity.

Disruption theory also helps identify markets and industries which are ripe for disruption, of which I believe the advice market qualifies. There is a huge opportunity to change the value structure of this market to swallow the market opportunity presented by the advice gap. However, in my view this is a pivot, a change or a disruption of the existing, rather than merely some 'improvements in tech' or something of the like. As I will come to describe, staying within the existing value structure and merely attempting to stretch the reach of traditional advice, will do very little to impact anything at all.

It feels apparent to me that if we want to include all those in the market opportunity as potential 'advice business clients', then we rely on the development of efficiency innovation on the right-hand side (advisers) and new market making innovation on the left (potential client side). At this point many may say 'this is what everyone has been talking about for years and you're saying nothing different'. However, I might stress that if I am anywhere close to being right, the traditional model of advice will make up a small amount of overall activity within an advice business, with the vast majority of activity going towards these new market making innovations and whatever input they require to maintain.

This, of course, is if we really want to solve the gap. If not, we can continue to 'stretch the model', capture a few more people (I'm being intentionally flippant) and pat ourselves on the back for doing so. But if you're reading this, you are likely more intent on doing something about it and more open to changing the paradigm.

Part 2 – From Right to Left

Stages of acceptance:
1.This is worthless nonsense,
2. This is an interesting, but perverse, point of view,
3. This is true, but quite unimportant,
4. I always said so.
J.B.S. Haldane [15]

Change is Coming

Industry Level

Much like a comment I made regarding the evolution of technology in a previous essay, I believe advisers and advice businesses require their own phenotypic plasticity to cope with potential changes in the advice process, increased regulation and professionalisation, different business models and justification of their own existence.

If the way in which advice is given changes to non-regulated content or more simplistic / algorhythmic advice and less face-to-face etc, advice will become much more scale driven and tech enabled. Indeed, if the advice gap is really something the industry wants to overcome, this change will have to happen. Subsequently, advisers will need to adapt to this or risk perishing in the aftermath.

A paradigm shift of the overall operating model to solve the 'advice gap', will require proposition and distribution changes internally, with some emergent changes to the way in which the industry functions as a whole (external changes). This can be summarised like the below:

Internal

Level 1 – Efficiency Innovation (one system solutions) – required to improve profitability and free up working capital and time.

Level 2 – Propositional Innovation (New Market-Making Innovation)

Utilising one system solutions to create a working model which provides digital advice journeys for investments, annual reviews and so on... Community management platforms which provide the opportunity to monetise unregulated activity such as financial education courses and content, creating a diverse range of revenue streams for the business managed via one software system.

Level 3 – Distribution Innovation (New Market-Making Innovation)

Subscription-based / tiered charging models and large scale distribution models through which firms provide all of the above through mass-market arrangements (corporates, associations and employee benefits).

External

Level 1 – Democratisation of the advice market, including the creation of sites and services such as an Uber for financial advice. Consumers will be attracted via engaging content, tools, calculators and so on, with the option for them to deal with a marketplace of advisers.

Level 2 – Financial advice firms will rely less on their usual models of operation as 'normal' distribution will be commoditised and streamlined similar to the concept of Just Eat for financial advice. Like restaurants, who are less concerned now with the proverbial shop window, they place more emphasis on how they appear on Just Eat, as the method of distribution has been 'solved'.

Internal – Level 1

Efficiency Innovation

In 'The Evolution of Adviser Technology', I laid the groundwork for how I believe all systems will likely be in the future. Much like filing cabinets, phones and fax machines being combined into the laptop, so too will the various pieces of adviser technology be swallowed up into a one-system solution. This will create a new marketplace for advice-tech providers, whereby the field of competition has moved from smaller areas of activity (the narrow verticals of cashflow modelling, for example), to overall financial planning solutions with everything included (horizontal connectivity as the new paradigm).

The new paradigm will act as a foundation, upon which scalable solutions for potential lower AUM clients can be built. It will also provide vastly greater efficiencies and profitability, meaning firms will have the capacity for giving more advice and the capital to engage in advanced business models.

Internal Level 2

Propositional Innovation (New Market-Making Innovation)

Initially, to stretch the existing model (which I believe is still *part* of the solution) and for the number of people receiving *advice* to increase dramatically, arguably certain things need to happen:

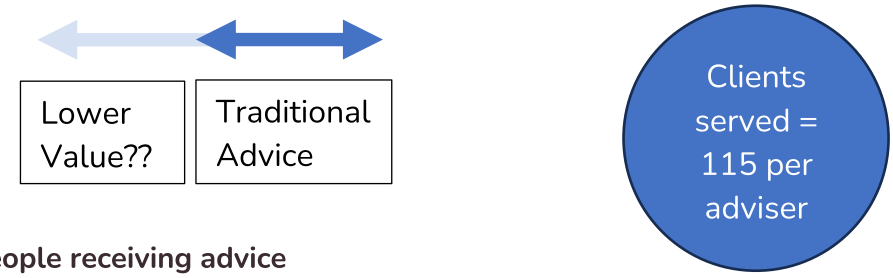
Advice needs to be more scalable
Advice needs a consumer pathway
Advice needs to be more attractive
Advice needs to be more accessible

Scalability / Pathway

Currently, the advice landscape is attempting to address the problem of how to increase its scalability, asking 'how can we serve these lower AUM clients?'

Well, let's take a look at the current landscape and work towards potential growth options...

Current Advice Proposition
(Assuming a total number of advisers of 28,227 in UK) [16]



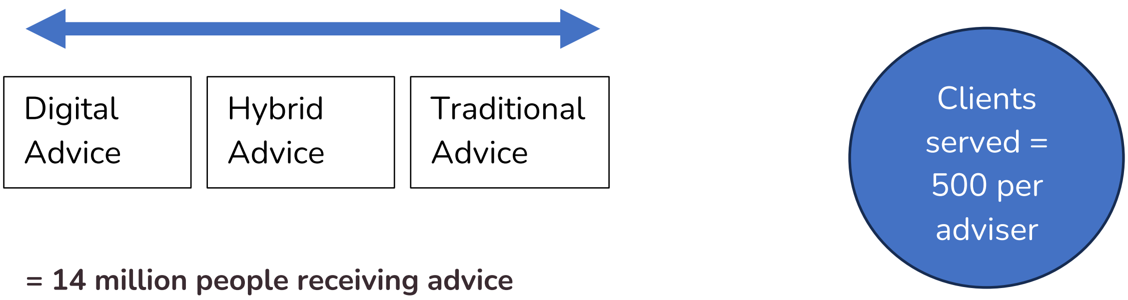
= 3.2million people receiving advice
Figure 2. The existing model and immediate challenge

The addition of hybrid and digital advice propositions (facilitated through one system solutions) adds an extra level of scalability. Digital financial health checks and triaging, followed by digital advice journeys for investments, pensions and annual reviews, would create the opportunity for firms to significantly reduce their cost to serve. Firms could adopt a tiered model, offering digital advice, hybrid advice and traditional advice, increasing their capacity dramatically.

As a quick case study, annual reviews are somewhat of an issue, with a cost to serve at around £800 per client (given traditional ways of working), taking approximately 5 hours to complete. Assuming this was an automated process with a digital journey for clients (possibly even supplemented with an online meeting), the process could likely be reduced to a 30-minute journey plus the optional cost of an adviser's time for 30 mins video call. Doing nothing else, this would create a time saving of 80% and a similar overall cost saving. In my experience, annual reviews are the largest time constraint for a firm. Savings like this would free up huge amounts of time for advisers to spend with other (potentially new) clients.

Similarly, in my experience advisers are regularly turning down business due to their cost to serve (simple and small ISAs etc). Rather than turning these down, clients could easily be steered toward digital investment propositions (fully branded and indicative of the firm's policies and investment principles). Again, this would dramatically increase the firm's scalability potential.

Pending Industry Progression



= 14 million people receiving advice
Figure 3. The next step in common advice business models

Despite the meteoric rise in potential capacity for advisers, there is more to be achieved. The following does, however, require a potential change in mentality, philosophy and activity for advisers.

The strategies for scalability discussed thus far refer to regulated activity only. Many firms will be happy to stop here. In fear of beating the same drum too often, I propose that this is a narrow-minded viewpoint for four reasons:

1. It assumes financial advisers should only deal in regulated activity
2. It ignores the importance and value of financial management (exercise) compared with advice (personal training)
3. It reinforces the idea that individuals only engage with the world of financial advice when they have the funds (etc) to do so
4. It reduces the ability to create a sales funnel or pathway of potential customers over time, placing a metaphorical barrier in front of would-be future investors

Imagine instead, a business model where the following was considered the norm for advice firms:

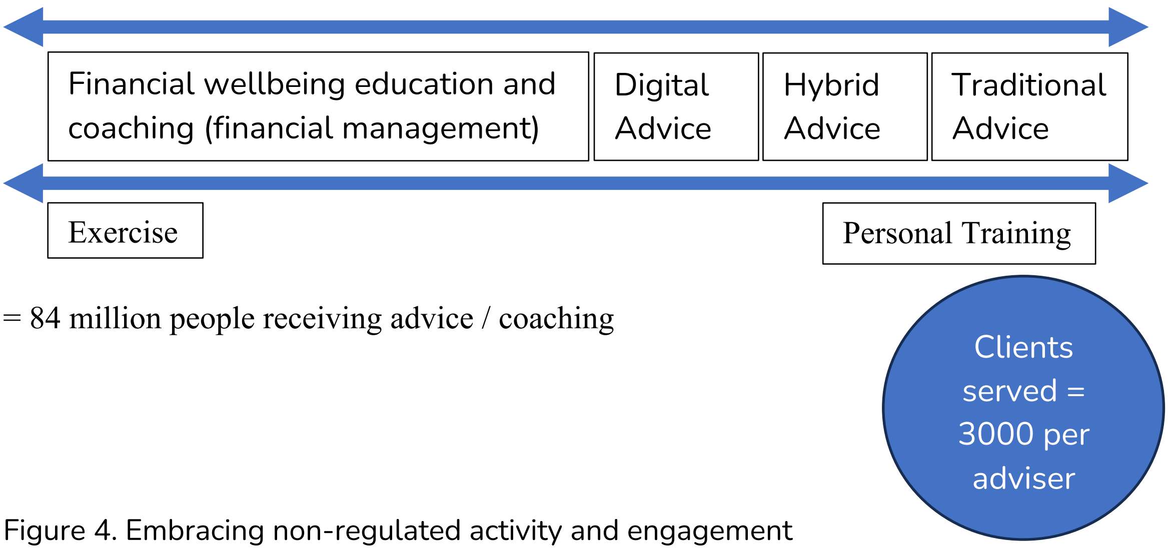


Figure 4. Embracing non-regulated activity and engagement

In this example, the entire set of activities is part of one operating model which is indicative of the business' philosophy. Typically, this will be (but may not solely be) lower value clients engaging with social media content produced by the advice business, subscribing to a service of some kind or purchasing course material for the improvement of personal financial management. It is important to note that these things are often discussed as necessary for the closure of the advice gap, however ideas for how they are provided are never really postulated.

Consumers of content, courses and so on, are therefore community members (clients) for the advice firm and constitute a pathway of customers for years to come. In addition, these individuals are engaging with content which is not 'regulated advice'. However, why should this matter? Again, it is working on poor framing of the problem to begin with. Who says that only regulated advice matters? Would we be happy for more people to exercise, whether under the tutelage of a personal trainer or not?

This sort of activity means consumers are now engaging with financial guidance, are increasing their awareness and are on a potential journey toward regulated advice. Advice firms become hugely more profitable, diversifying their income streams (advice which they would give to their own clients) and also servicing huge numbers of additional clients.

Attractiveness and Engagement

It would be very easy to spend a great deal of time focusing on this aspect. The rabbit hole of financial health check tools and associated technology could fill an entire paper. So, for the sake of brevity here, I'll keep this short and focused. The main content will appear in the final paper relating to consumer behaviour change through such tools and activities.

Health check tools and the like are a great way of engaging people in conversations (metaphorical or not) about a targeted notion. [17, 18] These types of tools are used in many industries and have been shown to moderate behaviour and improve a variety of outcomes. [24,25] Findings like these suggest the potential for creating engaging portals or online tools to improve the financial wellbeing of individuals. Coupled with this is the inclusion of gamification, which has also been shown to improve adherence, motivation and outcomes in a variety of industries and populations. [19-27]

Imagine a gamified financial health check tool which runs throughout the entirety of a financial planning journey over time. Much like a Nike+ app or Strava, users (beginning from any number of financial positions) would be working toward goals, seeing their financial wellbeing develop in line with their own financial literacy. It also has the benefit of making the tasks and behaviour of good financial wellbeing more attractive and palatable.

Likewise, developing a community of consumers will likely form a component part of an advice business if the numbers required to close the advice gap are to be realised. Community development has multiple benefits, largely due to the identity-based motivation and adherence derived from feeling part of something or connected to other people.

However, along with the creation of online courses, the above suggestions require advisers to be motivated toward this activity, refraining from staying in the same model which exists currently (more to come shortly).

Internal – Level 3

Level 3 – Distribution Innovation (New Market-Making Innovation)
Tiered pricing strategies / Large scale distribution models through which firms provide all of the above through mass-market arrangements (corporates, associations and employee benefits). Subscription-based / tiered charging models creating a diverse range of revenue streams for the business managed via one software system.

While large scale distribution alone is not enough to solve the ‘advice gap’ (for reasons discussed already), it is a pre-requisite. Without access in some way shape or form to both regulated and un-regulated advice or guidance, the number of people on a pathway to financial well-being will not increase significantly. Much like the gym memberships discussed earlier, employer-based distribution is a great place to start. Again, these things are done at a small scale already, but large-scale models with engaging propositions are harder to find. The precedent is there to improve employee benefit propositions to full blown digital advice, if distribution is obtained.

As discussed in level 1 / 2, advisers need to see the opportunity for community development, or rather the monetisation of large-scale communities of people consuming content or guidance in some way. This is mass distribution, but a less obvious kind for advisers. What is required is the utilisation of friends and family of clients, social media activity, digital tools which add value to people and connect them to financial products where appropriate and a willingness to drive all this forward.

Coupled with the above, access and distribution are likely supported with different charging models. There are businesses now charging subscriptions rather than the more traditional models of fee structures. Industries which target large-scale audiences tend to charge in a similar way. I think it’s likely that subscription-based models will be how such individuals will be captured in the future, creating tiered pricing models which will likely become the norm for advice businesses. As per the previous graphics, the lower end mass market will probably be subscription based, with specific fees for digital clients and more stereotypical fees for hybrid and traditional clients. However, much like the disruption theory content highlighted previously, it is possible to see a world in which even the wealthiest and most complex operate on a subscription model.

Ultimately, as long as the adviser can show value added and so on for the sake of consumer duty, charging can be as flexible as needs be to retain clients. The potential for which is secured by the technology utilised and journeys produced. More to come on this in the final paper.

External – Level 1

Uber for financial advice

It doesn't take a huge amount of imagination to see a world in which the technology for financial wellbeing and guidance is produced and scaled to a point whereby large communities of consumers or potential customers are presented with financial advisers from which to choose to satisfy their needs. The equivalent of an online marketplace for finding an adviser, where each adviser or firm has ratings and comments such as you'd find on Uber or AirBnB and so on.

To do so, all that is required is for some form or method of attraction, mixed with digital content and guidance and a platform for marketing leads or facilitating the connection between adviser and consumer. This starts with traffic or large numbers of people consuming content and valuing the connection to seek 'real advice'. None of that needs to be through a regulated entity. It is a numbers game – an attraction strategy for lead generation. Watch this space, as someone will likely do it. Or perhaps, many will do this…

External – Level 2

Just Eat Financial Advice

A natural extension of Uber for financial advice is the maturation of that proposition to become the norm for the industry (or at least much more common). Much like the restaurant / take away market has been remodelled somewhat with the advent of Just Eat and the like, the same could be said of financial advice.

In this model, restaurants have begun changing their focus as to where they push marketing spend and activity. Just Eat have essentially solved (to some degree) access and distribution to takeaway food. [28] Rather than your own website and normal marketing strategy to attract customers, owned solely by that restaurant, Just Eat provides a platform through which your marketing efforts can be focused.

Think about the same with financial advice. As an extension to level one, you would now have a dynamic platform upon which advisers could funnel their activity. Depending on the success of the platform, this could mean advice businesses obtaining a significant portion of their business through such means.

Adviser Change

The mentality of Advisers

Everything mentioned thus far is predicated on the willingness of advice firms and / or the industry to move in this direction. Even if you are to remove the 'public good' achievable through solving the 'advice gap', there is huge financial gain possible. I doubt anyone would chastise me for suggesting how the world of advisers might get excited about that possibility.

Yet, embarking on these changes requires a movement away from normal practice. The current trend is in fact in the opposite direction. Through Consumer Duty, advice firms appear to be moving further to the right and letting go of the proverbial headache of dealing with less profitable accounts. So, the aforementioned strategies require not only a breaking of adviser inertia, but also change of momentum in the other direction.

Similar elements will be discussed in the final paper, however for now, consider the amount of possible habits, biases and imagination gaps at play for advice firms currently:

- The ageing population of advisers
- Unhappiness with incumbent technology
- Pressure to add value from Consumer Duty
- Traditional advice processes as a long-standing habit
- Previous experience or knowledge of failed low AUM client ventures
- Scepticism as to the future of the profession
- **A general fear, lack of willingness or ability to change**
- Perceived size of task
- Lack of understanding as to how technology has developed
- Fear of changing current tech proposition
- Long-term contracts with tech providers
- And so on and so forth

Now, it would take an entire book to explore these all. For the sake of brevity, I'll just focus on the reluctance, fear or inability to change element.

The Fear of Change

I've chosen this factor due to its significance to virtually all human activity. I have previously written about cognitive biases such as cognitive dissonance and confirmation bias and how they play a role in human cognition and decision making. Philosophically speaking, the prospect of change is also synonymous with the unknown or the chaos of life and is therefore to be avoided. Needless to say, we homo sapiens do a wonderful job of encouraging ourselves to remain as we are.

Advisers will need to embrace the changes on the horizon or be left behind. For many, this will only strengthen the desire to cash out and leave the industry. Fortunately, there are many consolidators ready to snap up their businesses and client banks. For those wishing to stay, they will of course be able to remain largely unchanged with a few incremental additions to the tech proposition and some well thought out processes to appease the FCA. However, I believe we have reached a point where the technology to achieve much greater things is upon us. We live in a digital first world, with greater 'connectivity' than ever before. If that is not a precursor for more scalable financial advice then I don't know what is.

Someone will capitalise on the opportunities discussed within this paper (and many which I have no doubt missed). Advisers need to ask themselves which camp they want to be in and what their ambitions are. If you want big things, you should look at making a 2025-like business model with a commercial footprint across the entire range of UK demographics.

Summary / Requirements / Predictions

- Efficiency innovation will drive change in the advice industry through the creation of single platform technology, subsequent evidence of profitability and exponential adoption by advice firms.

- New market-making technology will drive low asset business activity through the automation of currently arduous tasks combined with simple digital journeys. This business will rival the profitability of traditional advice processes.

- Firms will adopt multi-faceted pricing models to reflect either monthly subscription and/or stratified service propositions of traditional (F2F), hybrid or fully digital journeys

- Firms will develop and monetise communities of clients through content generation, educational courses, tools and calculators etc forming revenue streams on non-regulated activity as part of their core practice

- Advisers will change the image of the profession to match the start-up / tech culture / social media influencer image

- The advice landscape will reflect something more akin to Just Eat for financial advice at the higher end of the market, largely based on customer satisfaction and proposition differentiation

Conclusion

I fear again that many will take offense at my suggestions as some sort of devaluing of financial advice. If anything though, the amount of people receiving advice as we currently know it will likely remain relatively unchanged, even with my suggestions (say, increases of 50%). Traditional advice businesses could, in theory, go on with minimal changes for a long time (as long as they can show value to clients that is). The point of these papers though is in improving the financial wellbeing of tens of millions, from the perspective of financial advice businesses who choose to do so. It is not written for advisers who wish to stay working with their existing batch of clients, doing nothing more and nothing different.

For those serious about not just helping millions of people, but also capitalising on a huge opportunity, I believe this to be (at least to some degree) the way in which it will happen. I think the vast majority of time and resource will be spent on creating engaging and valuable content to develop and obtain a wide audience, providing educational courses and helpful digital journeys (health check, calculators and investment journeys) to encourage better financial outcomes through unregulated means. All of this built on top of single software technologies or limited ‘tech stacks’, creating a conveyor belt of service right from social media all the way to regulated advice but within each advice businesses’ own philosophy or ethos.

Paradigm shifts are not easy or comfortable. But they do happen. If you disagree with my thoughts in this paper, I might ask you how you believe the ‘advice gap’ would ever be solved within the current paradigm? If not my suggestion for how the industry will change, what do you think a paradigm shift would look like? As the quote at the start of this paper highlights, if you are not prepared to disrupt your own business or industry, there is someone out there willing to do it for you. If, and that is a big if, the gap is ever to be solved or the opportunity is ever to be realised, I believe disruption is completely necessary.

It is through this disruption I believe advice businesses can be set up for or prepared for doing the final and most crucial step – making millions of people interested in and believing they can positively impact their financial situation. This is the subject of the final paper coming soon.

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