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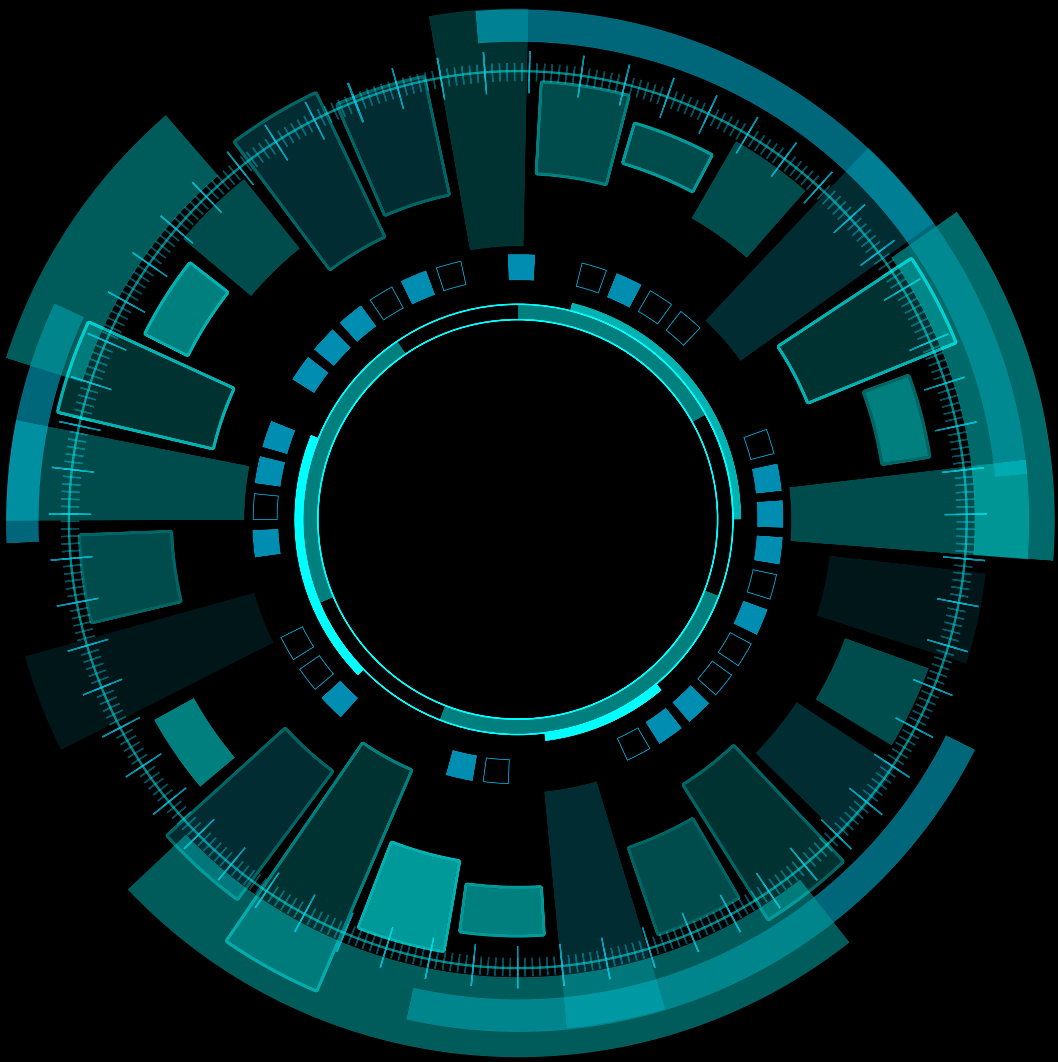

Automation of financial advice

SA's readiness for automated financial advice

June 2018

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1. Introduction

Cognitive technologies used in the automation of business processes, for gaining insights through data analysis and in engaging with customers and employees, is starting to demonstrate real and significant business value in the financial services industry.

These emerging technologies shape the way financial services are bought, sold and consumed. They have not only allowed financial services providers (FSPs) to tap into new markets and to offer new products but also to reduce the cost of service provision, better respond to regulatory changes, increase the speed to market and ultimately lead to improved customer experiences.

The adoption of advanced technologies in the financial services industry has led to the emergence of innovative and agile fintech companies that are able to challenge traditional FSPs in what used to be a market with high entry barriers.

While the incumbents still enjoy significant scale and access to customers, the rise of fintechs has forced them to relook their business models and align their strategies to embrace technology more effectively.

In investment management, investment advice is a knowledge-based offering, so cognitive technologies are appropriate for supporting its delivery. Automated advice (also known as robo advice) can take over many of the tasks of investment advice, including customised portfolio, rebalancing portfolios over time and tax-efficient investment selection.

For advisers, the new work process allows them to undertake a new role to more of an investment coach that encourages healthy financial behaviours.

Compared to the United States and the United Kingdom – markets with sizeable automated advice offerings – South Africa's investment management market is very small.

Currently only a few market players have a large enough customer base and investment portfolio to achieve the required economies of scale that justify the implementation of automated advice solutions.

To overcome the scale challenge the following options might be considered:

1) Develop partnerships with companies that have a sizeable pool of customers (e.g. banks; telcos)
2) Develop market places that aggregate customers
3) Develop products that cater to currently unviable mass market consumers (e.g. for stokvels)
4) Increase affordability by, for example, utilising chat bots

The main objective of this report is to assess the appetite for and attitude towards automated financial advice for various scenarios ranging from saving, investing, retirement planning and buying life insurance, and the type of challenges providers of automated advice may face.

The results are the outcome of numerous discussions with key established players and start-ups in the banking, insurance, wealth and investment management markets, as well as by a Deloitte survey of close to 700 South African consumers.

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Leader: Robotics and Automation practice
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2. Overview

What is automated financial advice?

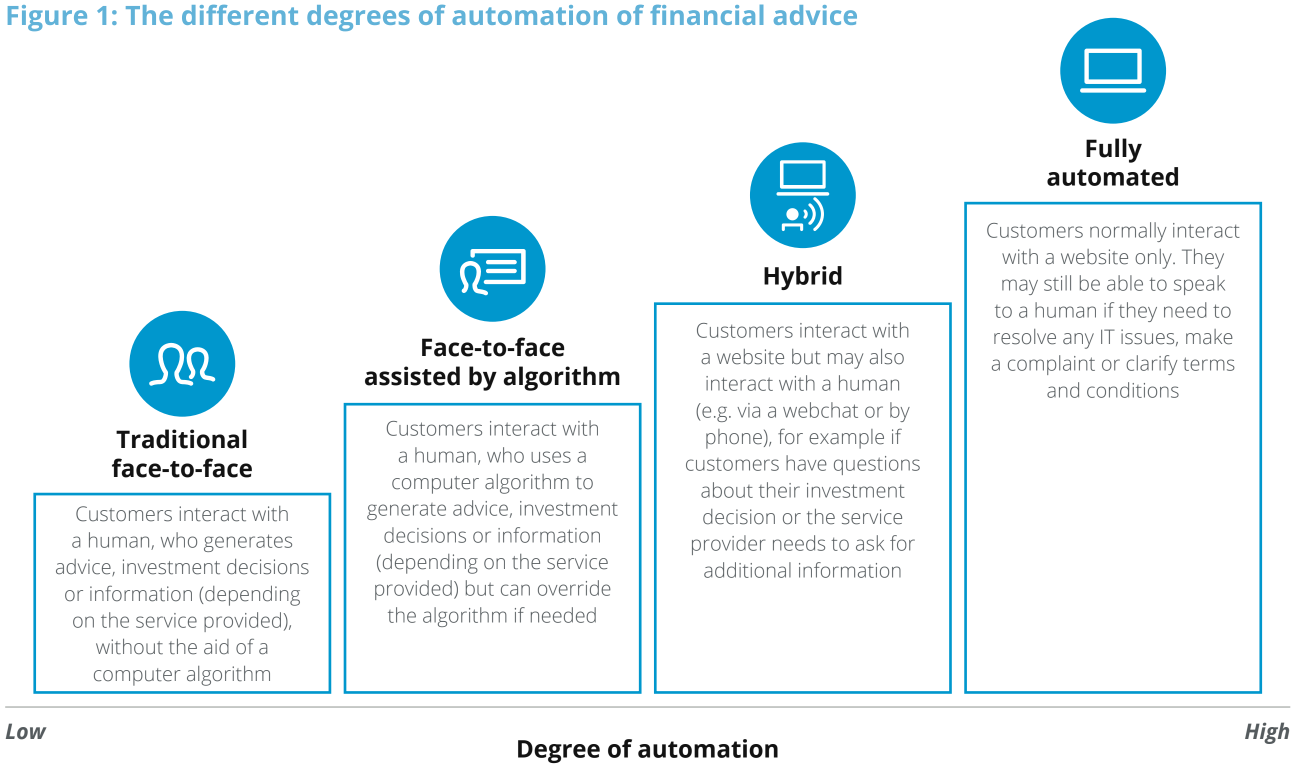
Due to the rapid advancements and adoption of technology in the financial services industry, it is difficult to provide a clear-cut definition for *"automated financial advice"* or *"robo advice"*.[1]

In contrast to traditional face-to-face advice that is rendered by a human adviser, automated advice ranges from partly automated with some human intervention to fully automated without any human interventions (see Figure 1).

The Financial Services Board, which oversees the South African non-banking financial services industry, uses a narrower definition for automated advice: *"furnishing of advice through an electronic medium that uses algorithms and technology without the direct involvement of a natural person."*[2]

For this report, we will use a broader definition that ranges from financial advice by human advisers that are empowered by computer algorithms (face-to-face assisted by an algorithm and hybrid) to fully automated advice.

Figure 1: The different degrees of automation of financial advice



Deloitte, 2018

1 "automated advice" and "robo advice" are used interchangeably
2 Financial Services Board, Revised Fit and Proper Requirements – 21 October 2016, 2016

Consumers seek affirmation from financial advisers

While only about 2% of South Africans have an annual income of more than R400 000[3], most people in this pool have bought a financial product in the last three years, reflecting the huge appetite for these products.

The vast majority (more than 90%) sought advice – professional or informal – prior to purchasing a financial product and it is common for consumers to pay for this advice. This indicates that South Africans rely on advice and are prepared to pay for it.

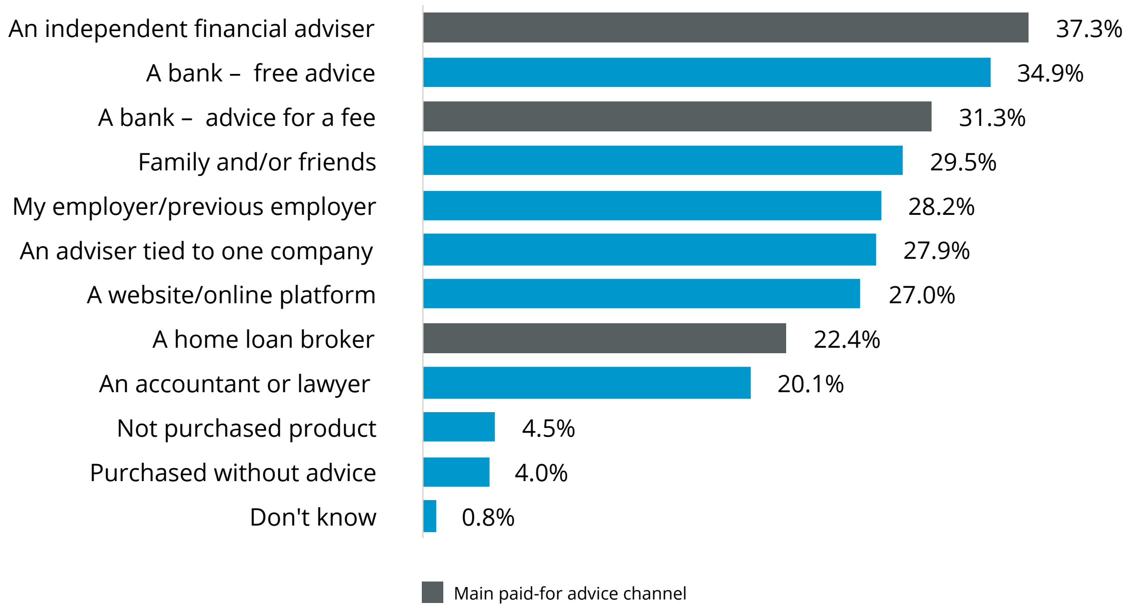
Among the consumers that had bought a product during the last three years, professional financial advice was used to confirm that the choice of product was correct or to identify the right product once the type of product had been chosen.

The affirmation from a financial adviser is in particular important for consumers over the age of 55, affluent or high-income South Africans.

Consumers with an annual income above R1.5 million call on financial advisers to encourage them to take action and stop procrastinating matters related to financial planning.

In contrast to other age groups, young millennials (under 25 years) use financial advisers to make sense of day-to-day and long-term finances and to get assistance with administration of their financial products.

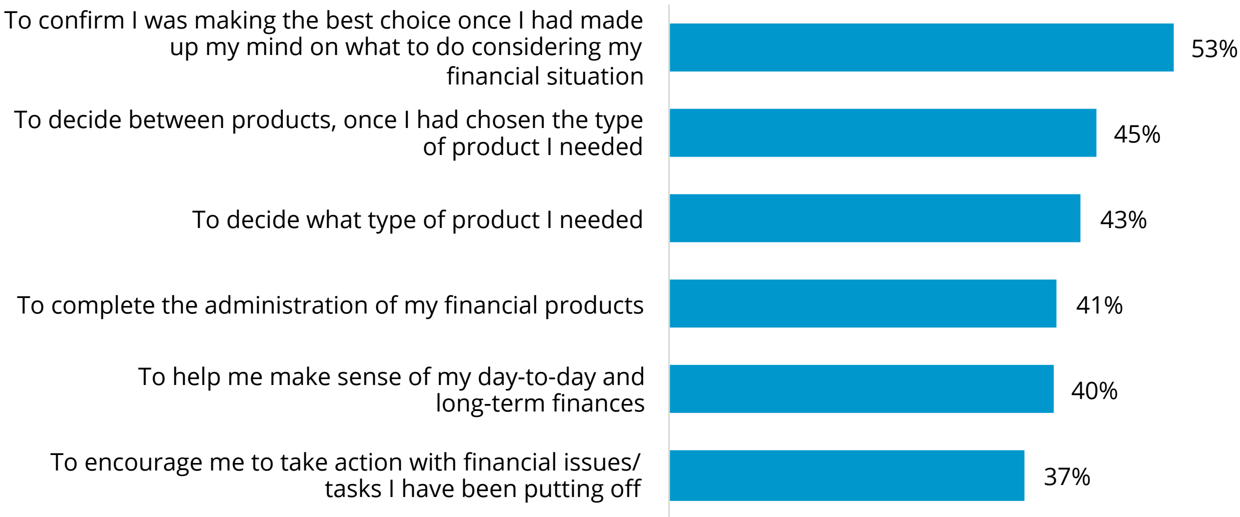
Usage of advice on product purchases, 2015-2017



Source: YouGov 21-28 November 2017, Deloitte Analysis. SA adults aged 23-65 years with an annual personal income of more than R400 000 residing in large city/urban or suburban areas

[3] South African Revenue Service, 2017 Tax Statistics, 2017

Why financial advisers were used



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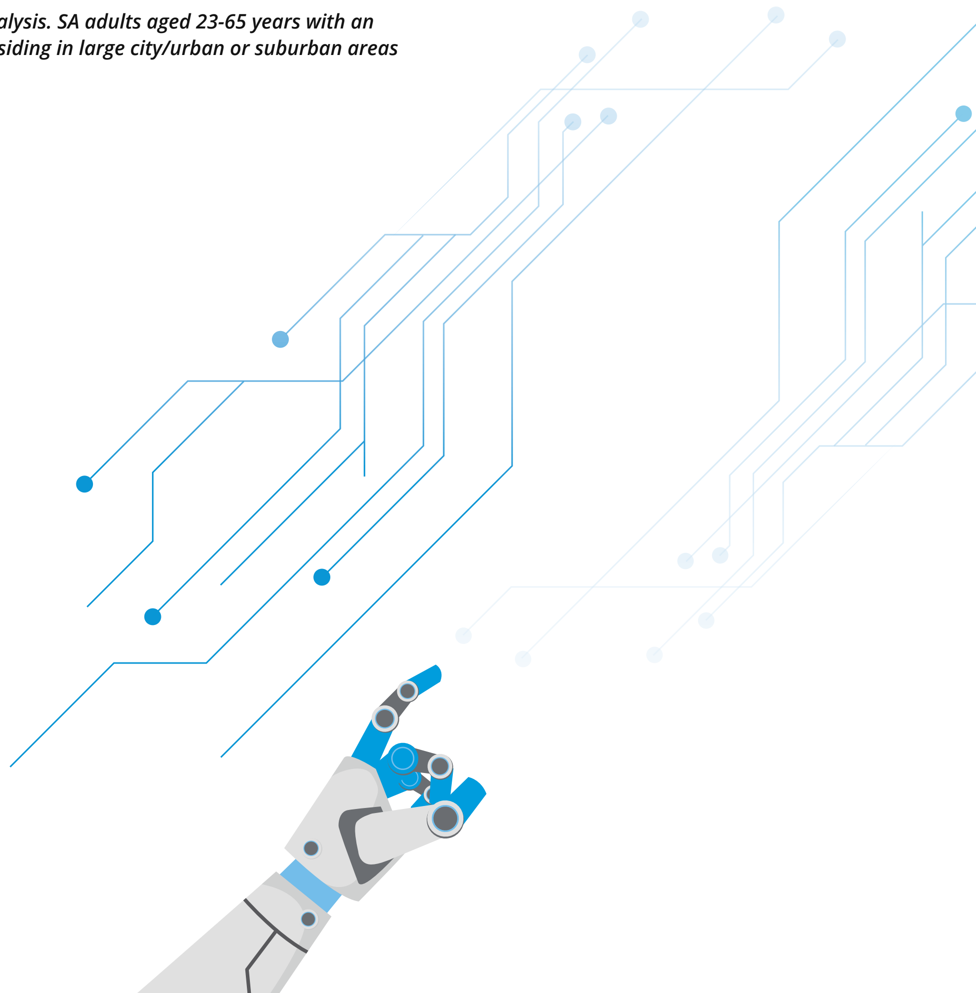


South Africans are open to using automated financial advice and are prepared to pay for it

South Africans are open to using automated advice. Consumers are interested in how automated financial advice may help them with matters related to budgeting.

In particular, consumers in the age group between 34-44 years, the least affluent and consumers with an annual income of up to R750 000 are most interested in using automated advice to help them with minimising their bills.

High-income earners (above R1 million per annum) are most interested in using automated financial advice for rearranging their debt.

The interest in assistance with budgeting is also reflected in the high willingness to pay for automated financial advice to have finances reviewed.

The smaller the amounts involved, the more prepared South Africans are to use automated financial advice.

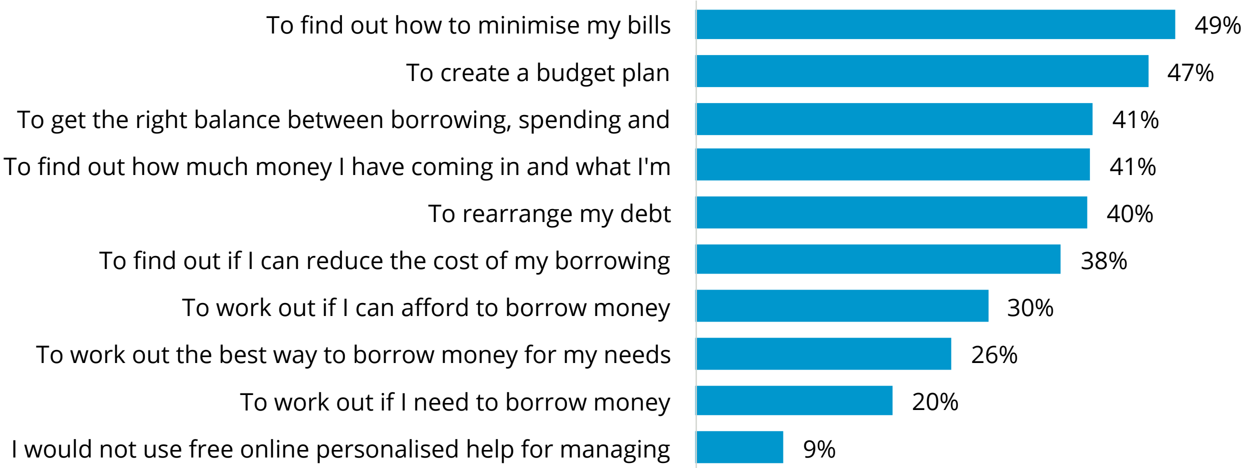
Consumers are least willing to pay for automated advice related to financial matters that involve large amount of money. South Africans perceive these matters to be too complex or risky to be done without a face-to-face engagement with a financial adviser. Consumers are especially reluctant to use automated advice for converting large amounts of pension savings at retirement.

There is a general reluctance to take financial advice from companies that are not primarily financial services providers. This reluctance is most pronounced among individuals who are older than 44 years. More than half of this age group would not take financial advice from non-FSPs. About 40% of South Africans in the R400 000-R750 000 annual income bracket are reluctant to use advice from non-FSPs.

Given that online retail is still in an early stage in South Africa, accounting for about 1% of total retail, consumers are least willing to accept financial advice from e-commerce platforms compared to other non-FSPs.

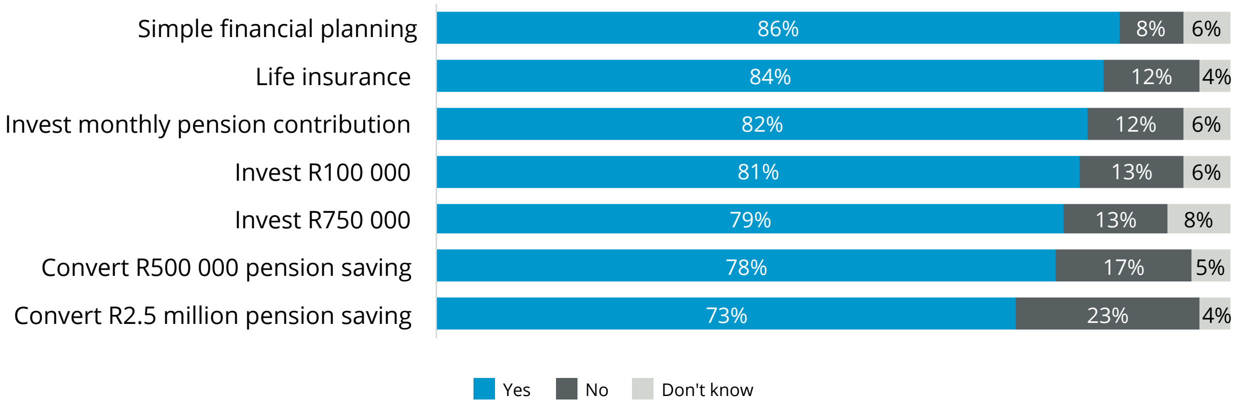
The smaller the amounts involved, the more prepared South Africans are to use automated financial advice.

What would you use free automated advice for?



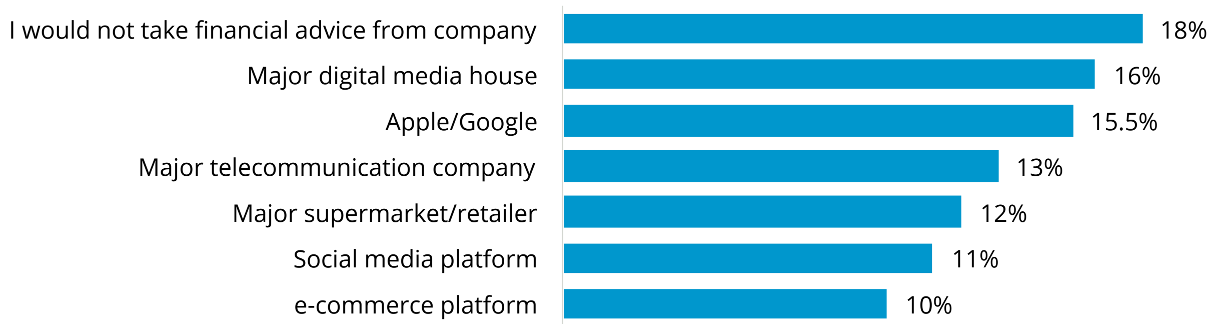
Source: YouGov 21-28 November 2017, Deloitte Analysis. SA adults aged 23-65 years with an annual personal income of more than R400 000 residing in large city/urban or suburban areas

Willingness to use for automated advice by scenario



Source: YouGov 21-28 November 2017, Deloitte Analysis. SA adults aged 23-65 years with an annual personal income of more than R400 000 residing in large city/urban or suburban areas

Willingness to accept financial advice from non-FSPs



Source: YouGov 21-28 November 2017, Deloitte Analysis. SA adults aged 23-65 years with an annual personal income of more than R400 000 residing in large city/urban or suburban areas

3. Automated financial advice – A view of individual markets

Simple financial planning

While, most South Africans, irrespective of income, wealth or age, are open to using automated advice for reviewing their finances, the type of advice they are looking for differs. It ranges from help with minimising bills, creating budget plans, striking the right balance between saving and spending to rearranging debt.

As many South African households struggle to "get by" financially and live from pay cheque to pay cheque, they often experience high levels of financial stress.

Even though, "getting by" is most difficult for low-income earners, about one in three households earning more than R40 000 per month struggle financially or just 'get by' according to a study carried out by Old Mutual in 2017.[4] While stress levels are the highest among low-income earners, the study indicates that more than a quarter of households with a monthly income above R40 000 also experience high levels of financial stress.

Given these circumstances, it is not surprising that many South Africans are interested in getting assistance with minimising bills and with creating budget plans. Consumers aged between 35 and 44 years and low-income earners are mostly interested in minimising their bills.

Millennials and high-income earners, on the other hand, are least concerned about minimising bills. While millennials are more interested in assistance with creating budget plans, high-income earners are looking for assistance with rearranging their debt.

Price sensitivity among South African consumers who would use automated financial planning advice is high. Half of the respondents would not pay more than 10% (R500) of the cost of a financial planning session with an adviser.[5]

About two thirds would not pay more than 20% (R1 000). Compared to other age groups, millennials seem to be less price sensitive. This could present interesting opportunities for providers to develop digital fee-based budgeting solutions for young technology-affine consumers.

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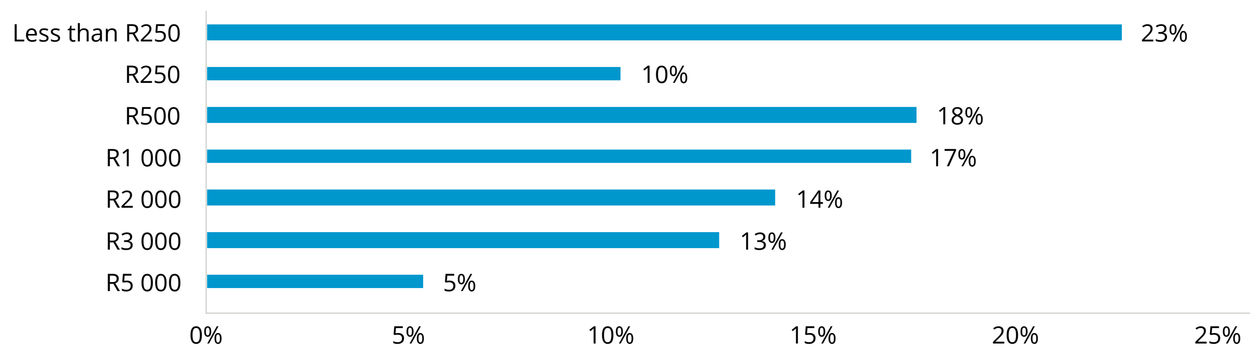
[4] Old Mutual, Savings and Investment Monitor, 2017

[5] For our survey we assumed an average advice fee of R5 000 per consultation to speak to a financial adviser

Maximum amount willing to pay for automated advice for a financial review



Source: YouGov 21-28 November 2017, Deloitte Analysis. SA adults aged 23-65 years with an annual personal income of more than R400 000 residing in large city/urban or suburban areas

Considering price sensitivity among consumers in the low wealth segment, a digital-only solution is more likely to be successful for simple advice aimed at this segment and is something fin- or insurtech companies are looking to develop. Cases that are more complex and involve less price-sensitive more affluent consumers could be serviced by hybrid solutions that combine digital with face-to-face advice.

While it is still not common to fully decouple advice from product and very few independent financial advisers (IFA) or brokers offer stand-alone advice, a number of financial service providers (FSPs) offer basic web-based budgeting tools that aim at increasing the financial wellbeing and financial literacy of users.

In addition, there is a host of apps available on popular app stores that assist users with creating budgets and tracking household expenditure. These tools are usually free of charge. However, they only offer basic functions, as they are not able to capture or leverage deep insights specific to an individual consumer and her unique financial position and goals.

Offering low-cost or even free financial planning tools could assist with building customer loyalty and could be powerful tools to gather deep consumer insights. By combining user data with machine learning and artificial intelligence, companies could tailor marketing messages and products that are better aligned to the market needs.

Further, interactive financial planning tools could assist in shaping the behaviour of consumers by offering valuable tips on financial decisions and by encouraging them to stick to set targets. This could have the medium- to long-term benefit of allowing consumers to free up funds previously used for consumption and allocate them towards savings and investment products. By doing so, FSPs could be able to increase the size of investments of individuals and migrate them to a more profitable customer bracket.

In order to increase the commercial viability of automated advice and to offset low fees, providers have to achieve significant scale. In the quest for scale, established insurers, banks and large IFA networks have an advantage over fintech companies due to their established customer base and brand recognition. Being able to tap into their existing client pool reduces the customer acquisition costs for these established players. Further, they are able to leverage their well-established brands in order to build trust in the market place.

An opportunity to reduce acquisition costs is the aggregation of customers by providing solutions such as financial well-being programmes at the workplace to mass employers or organisations with existing large member bases such as retailers, government departments and agencies or unions.

Fintech companies may be well positioned to develop engaging and user-friendly interfaces that encourage the use of automated advice platforms. However, fintechs may face a problem of low brand recognition in the market place. This is in particular challenging given the importance of trust in the financial services industry. In order to bypass this challenge, fintechs could provide white label technologies to financial service providers that have a well-established brand and access to a large customer pool.

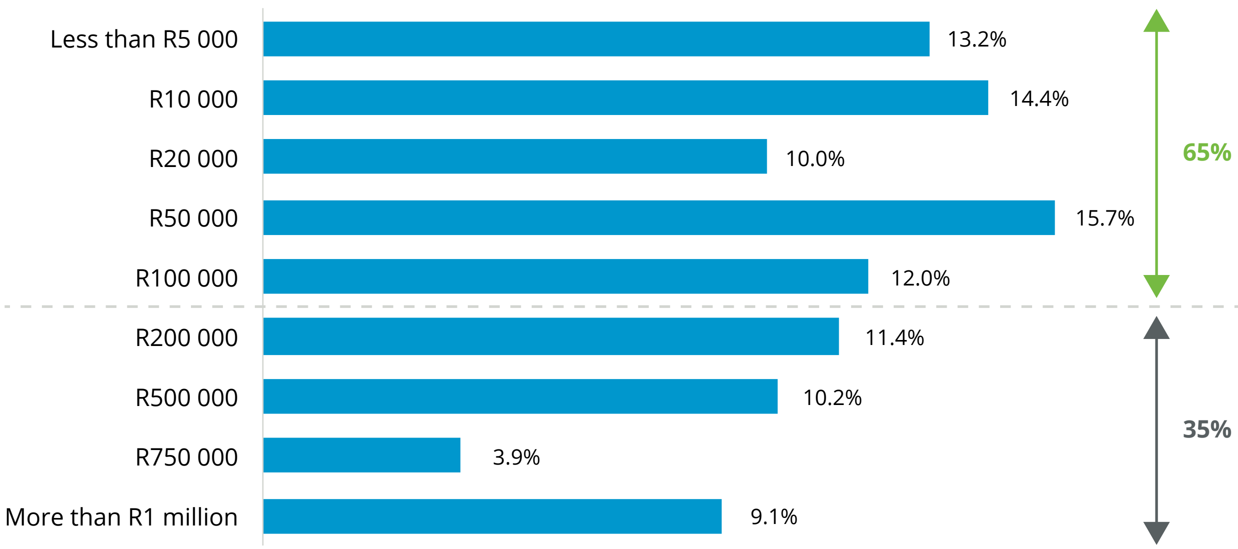
Investing

Similar to their peers in other markets, South Africans have a significant unsatisfied demand for efficient and cost-effective ways to invest small sums of money.

Automated advice is seen as a suitable solution to service this market segment. Our survey results show a strong bias towards using automated advice for small sums.

Only one third of consumers are comfortable to invest more than R100 000 based on automated advice.

Maximum size of investment comfortable to invest based on automated advice



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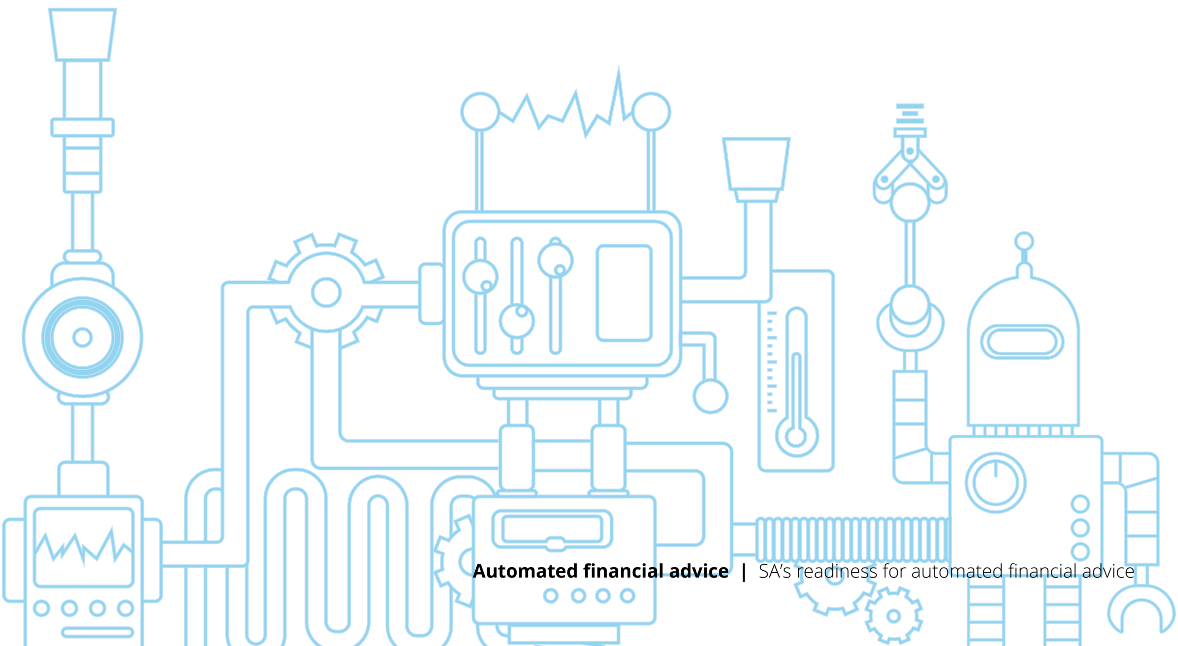
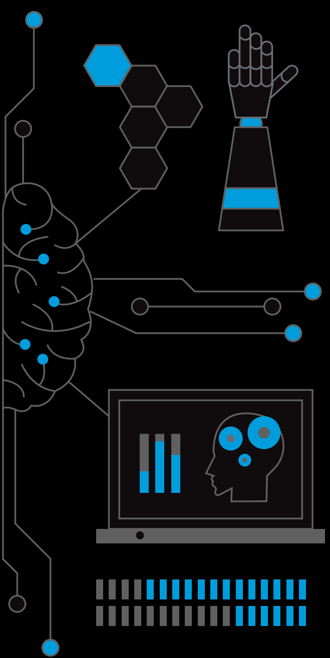


As individuals are either risk averse, prefer to hold their savings in cash or lack the understanding to invest them in higher yielding assets, close to R1.6 trillion are held in deposits in banks in South Africa according to the Association for Savings and Investment South Africa (ASISA).[6] Tapping into this massive pool of idle funds could present attractive opportunities for asset managers that are able to offer solutions for managing small sums of money effectively. This would require a change in their cost structures, augmented with deploying, for example, automated advice tools.

The low margins in the mass market and the looming introduction of the new retail distribution review (RDR) regulation in the second half of 2018 are expected to increase the attractiveness of automated advice for the mass market segment and other price-sensitive segments further.

As even wealthy consumers become increasingly concerned about the impact of fees on their investments, it is likely that they will start to allocate a portion of their assets to be managed passively through low cost digital advisers. As wealthy consumers in the UK, affluent South Africans are prepared and willing to use automated channels to invest large sums of money. The willingness to use these channels for investing R100 000 and R750 000 respectively increases with wealth.



Retail Distribution Review (RDR) in a nutshell

The key objective of Retail Distribution Review is to ensure that financial products are distributed in ways that support treat-consumers-fairly outcomes. This includes the delivery of suitable financial products and the fair access to suitable advice for consumers. It aims to enable customers to understand and compare the nature, value and cost of advice.

RDR's impact on insurance

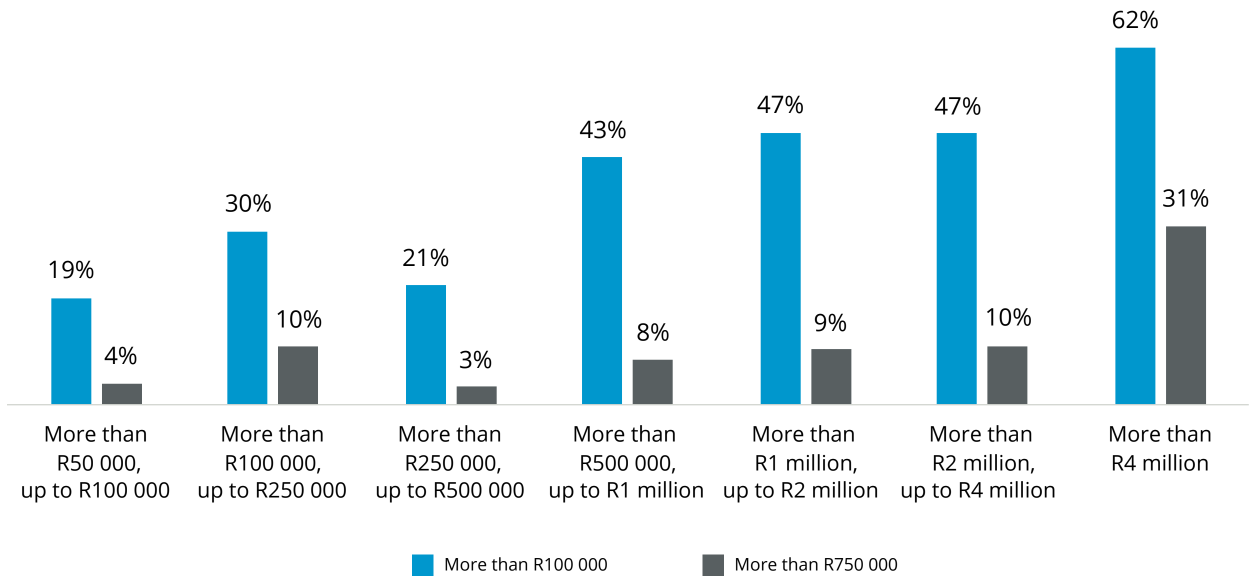
Insurance companies have many important questions to consider as part of the new regulations. These are across the insurance lifecycle and will impact product and customer strategies across the industry. From advisers being challenged by the amount of commissions they may earn, to the design of products and commission systems that require updating, to the amount of monitoring product providers need to perform over advisers – the changes are impactful and the amount of change will bring many challenges.

RDR's impact on investment management

Like the insurance industry, there are many aspects for investment managers to be concerned about. The banning of commission on the sale of investment products is probably the most critical change as this will impact the ability and the appetite of advisers to sell investment products in the market. Where adviser business models are unable to survive, investment managers will require alternative direct distribution channels. As customers become more aware of product costs through improved disclosure, low cost products may become more popular. These product and customer questions become key to investment managers' business strategies.

[6] Association for Savings and Investment SA, An Overview, 2017

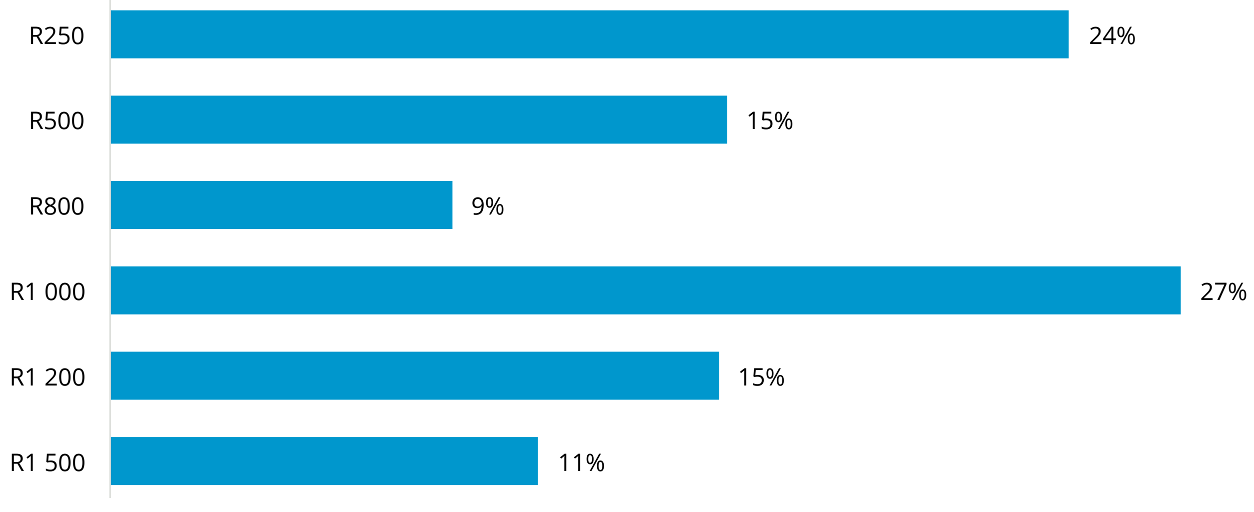
Willingness to invest R100 000 and R750 000 using automated financial advice by wealth level



Source: YouGov 21-28 November 2017, Deloitte Analysis. SA adults aged 23-65 years with an annual personal income of more than R400 000 residing in large city/urban or suburban areas

Cost consciousness occurs across the various wealth segments; however, compared to UK consumers, it seems to be less pronounced among South African consumers. The willingness to pay automated advice fees that are close to fees for face-to-face advice is relatively high. About half of the consumers that are in principle willing to use automated advice for investing R100 000 would consider switching to automated advice if this channel provides a 30% discount compared to face-to-face advice. In order to entice a switch to automated channels for investing amounts of more than R100 000, consumers demand larger discounts.

Maximum amount willing to pay for automated financial advice for investing R100 000



Source: YouGov 21-28 November 2017, Deloitte Analysis. SA adults aged 23-65 years with an annual personal income of more than R400 000 residing in large city/urban or suburban areas

Passive investment management is likely to be the best approach to offering low-fee automated advice for investors of small sums of money. However, even for managing larger sums, which typically enjoys higher margins, deploying passive automated advice for a certain portion of the overall investment sum might be a viable solution. A hybrid model that combines face-to-face or over-the-phone advice with automated advice is likely to be a viable option for servicing the wealthier market segment that is fee-sensitive but invests amounts above a certain threshold.

Low-margin products require a sizable and scalable customer base in order to be viable for providers. Given the current socio-economic conditions in South Africa, many South Africans do not have the disposable income to put aside money for saving and investment. Further, low-income earners are deterred by high fees of traditional asset managers that affect the payout at the end of the investment. Therefore, low-fee products need to be tailored to service the mass market efficiently and to attract low-income consumers.

Customer acquisition costs will be high, especially for new market entrants and emerging players with little or no brand recognition in this market. Therefore, providers of stand-alone automated advice are likely to face serious commercial headwinds. Due to these headwinds, fintech companies are seeking to collaborate with traditional FSPs with a large existing customer base. By providing white label technology, fintechs are also able to piggyback on a FSP's brand recognition and by doing so reduce their marketing costs substantially.

Due to their access and ongoing relationships with their customers, banks and established insurers with large advisory teams are well positioned to reach investors with small sums to invest without incurring major acquisition costs. However, banks do have an advantage in their ability to provide a single platform that allows customers to view and manage investments alongside their everyday banking and this is likely to be very attractive for many customers.

Retail investment platforms and asset managers with strong brands and direct access to customers are also well positioned to add digital investment advice services to their existing service offering at a relatively low incremental cost. However, in order to do this, they will need to build or acquire technological expertise.

As markets such as the US show, direct-to-consumer retail investment platforms are able to attract business away from asset managers by offering lower priced passive solutions.

As fee transparency is increasing, asset managers need to consider offering additional services such as tax optimisation and estate planning in order to mitigate against the impact of customers switching from higher margin, active and advised products to lower margin digitally advised products.

Saving for retirement

The South African pension market is the largest on the African continent. According to the Financial Services Board, retirement funds held over R2.4 trillion in assets in 2016.

As in the UK, the dominant occupational pension providers are large insurers and asset managers. Given their unrivalled access to a large consumer pool, the deployment of automated advice tools would help them to drive down their cost of service provision and hence expand their customer pool even further.

While the FSB describes acting in the best interest of the members of the fund to ensure that they receive the best return on their investments as a key role of pension fund trustees,[7] giving members the choice of where and how to invest within the parameters set by the pension scheme is becoming increasingly commonplace.

However, according to 10X, a financial service provider specialised in low-cost investment solutions, only about one-fifth of occupational pension fund members make use of member choice and choose from a selection of investment managers and funds.[8] The majority of members end up in default funds that are not aligned to their specific needs or current life stages. Pension scheme members are often not aware that they have a say in how their money is invested and hence do not engage sufficiently or do not know how their funds are invested. This could lead to a sub-optimal outcome, as members do not save enough or take too little risk.

Automated advice could be a powerful tool to increase engagement of members and to advise them on how to optimise their pension contributions. Further, it is a cost-effective way to provide members with in-fund advice. Our survey results show that consumers are very interested in using automated advice for planning their retirement savings. However, there are notable differences among age groups. Millennials are the most interested age group. The willingness to use automated advice for retirement saving declines with age.

In general, South Africans are interested in multiple aspects of how automated advice could assist them with decisions related to saving for retirement. Overall, respondents are interested in how much they have to save for retirement and in understanding the income, they will require in retirement. More than half of the respondents, who are members of defined contribution schemes, are interested in using automated advice to understand how to bridge the gap between income they want when they have retired and the amount they are on track to get with their current savings.

Automated advice could provide members with dynamic visual tools that illustrate key points of their savings journey such as the build-up of funds at specific intervals, the impact or influence of risk on returns, and progress towards goals. These visual tools are likely to be more accessible and engaging than descriptive text-based communication. Visual tools could also be used to benchmark individuals against their peers. Insights from behavioural economics have shown that comparison with peers that are in similar situations can encourage consumers to change their behaviour in a positive way.

[7] Financial Services Board, Role of Trustees, 2011
[8] 10X Investments, 2017

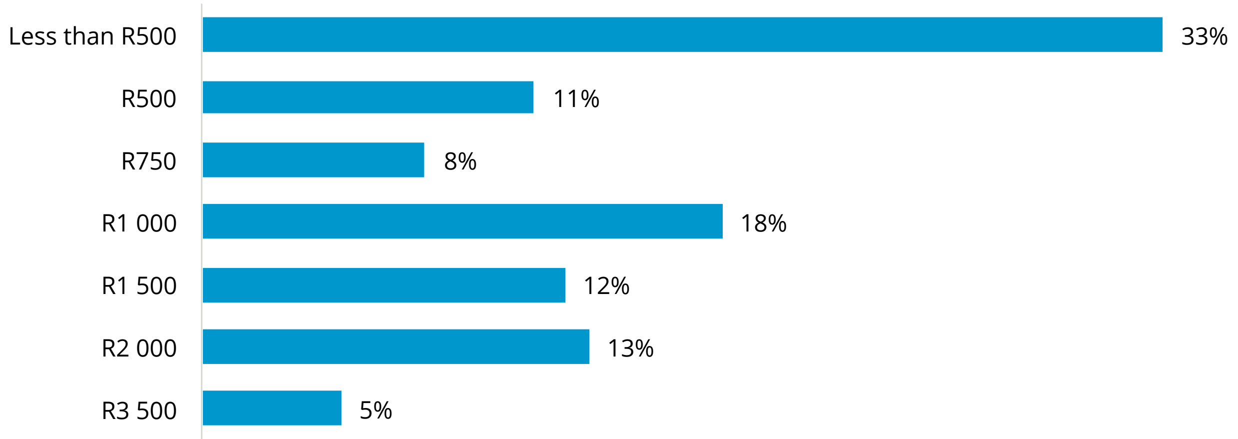
Automated channels could also send out alerts in case a member stands to miss certain milestones. These proactive alerts could prompt members to adjust their saving behaviour or review their investment choices to get back on track.

In addition to increasing engagement, automated advice could also make advice more affordable and hence more accessible to a larger pool of people. While willingness to use is high, South Africans are not prepared to pay high fees for automated retirement saving advice. More than half of the respondents indicated they would only use automated channels if they provide at least an 80% discount over face-to-face advice.

This high level of price sensitivity presents a challenge for providers. Developing a workplace pension portal with minimal human intervention could prove to be a viable option to overcome price sensitivity issues. A web-based platform could provide help with key decisions, such as which fund to invest in. This will be much cheaper than traditional advice as it saves financial advisers' time and hence fees and spreads the costs of the technology across many scheme members creating significant economies of scale. Making pension advice more affordable and accessible would have a large positive impact on savers and society.

Offering fully automated advice might enable providers to target small and medium sized employers that traditionally were not able to afford these services and were not able to offer pension benefit or advice as part of the employee value proposition to their employees. This in turn would have a significant impact on financial well-being of retirees and would alleviate the burden of working-age people to support their retired parents reducing the risk of intergenerational poverty.

Maximum amount willing to pay for automated advice on investing R750 monthly pension contribution



Source: YouGov 21-28 November 2017, Deloitte Analysis. SA adults aged 23-65 years with an annual personal income of more than R400 000 residing in large city/urban or suburban areas

At retirement

Consumers experience the greatest need for financial advice when they enter retirement. They have to decide how to fund retirement with the savings that they accumulated over their lifetime. Consumers are faced with tough decisions – such as how much cash to withdraw while leaving enough invested to provide a suitable income – and complex products.

Among the various scenarios, the willingness to use automated advice for converting pension savings is the lowest. About 16% of respondents indicated that they were not comfortable to use automated advice to convert any pension savings. As the value of pension saving increases, the willingness to use automated advice to convert it declines. In our survey 17% and 23% of respondent indicated they were not willing to use automated advice for converting pension savings of R500 000 and R2.5 million, respectively.

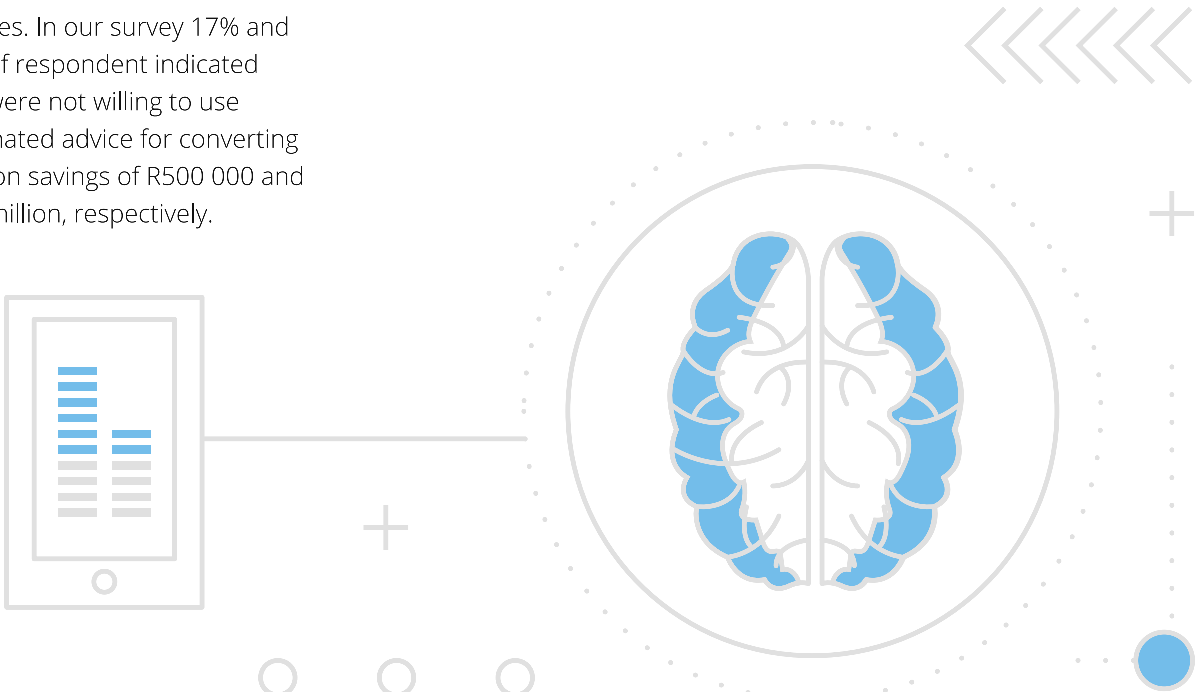
Overall, South African consumers are most interested in using automated advice that provides them with options to minimise their tax bill when they have retired.

Willingness to convert pension savings using automated advice declines with age. Consumer who are closer to retirement age are the least willing age group to replace a human adviser with automated advice.

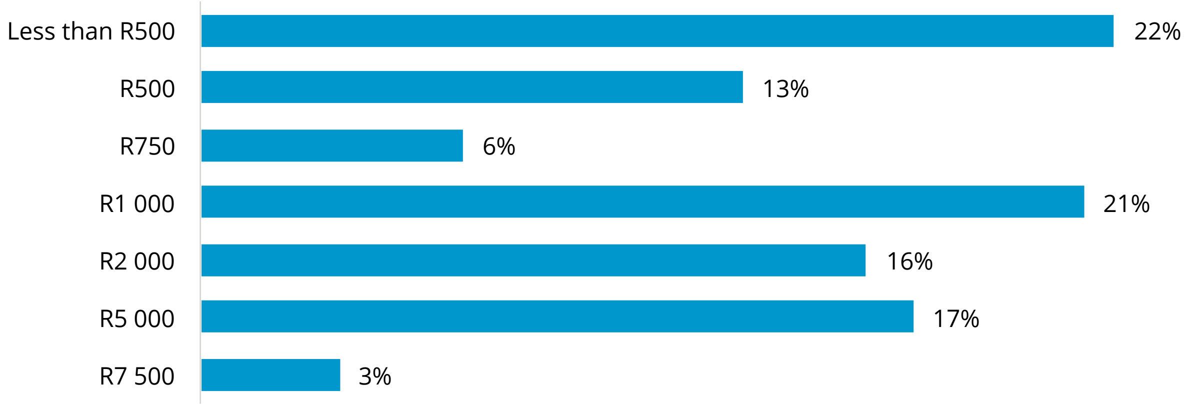
Roughly half of consumers would be comfortable to use automated advice to convert between R200 000 and R1 million pension savings. Compared to their older counterparts, consumers under the age of 35 are more willing to convert pension savings above R1 million using automated advice.

However, to make automated advice attractive, many consumers would demand a large discount on in-person advice. In our sample, among those who would pay for it, almost 80% would do this if they pay less than one quarter of the typical fee of a human adviser.

Age and wealth also influence the fees consumers are prepared to pay for automated advice. Compared to their older or less affluent counterparts, consumers under the age of 35 years and consumers with wealth over R1 million are much more prepared to pay fees that are closer to the cost of a human adviser.



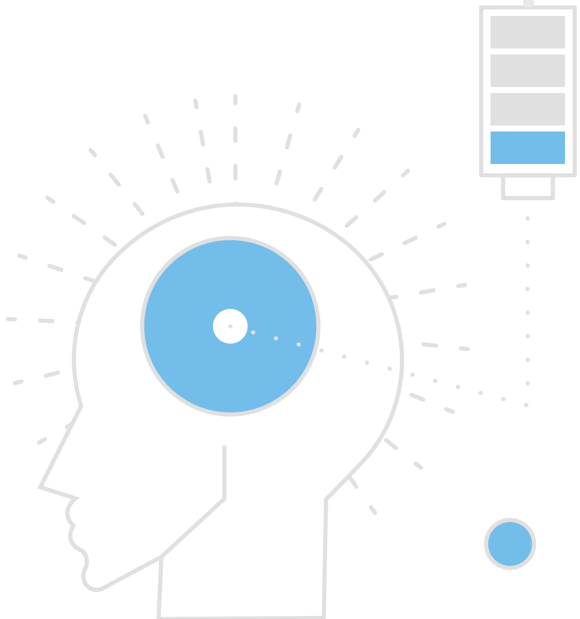
Maximum amount willing to pay for automated advice on converting R500 000 pension savings into a lump sum and a retirement income product



Source: YouGov 21-28 November 2017, Deloitte Analysis. SA adults aged 23-65 years with an annual personal income of more than R400 000 residing in large city/urban or suburban areas

A key concern for firms is regulatory risk. Firms giving regulated advice on pensions are likely to face a high degree of supervisory scrutiny given that large sums of money may be involved and the negative impact poor advice could have. Poor advice could result, for instance, in retirees running out of money in retirement. Many retirees have complex financial and personal circumstances and need to weigh up carefully different priorities for their retirement. Some customers may be vulnerable to behavioural biases when thinking about their retirement.

Examples include projection bias, where consumers may assume they will be able to live on the same income in 20 years' time without factoring in changes such as the possibility of going into a care home, and overconfidence bias, where consumers may overestimate the returns they will earn if they leave their pension invested and draw it down over time. Further retirees might underestimate the impact of inflation on their living standard in retirement.



To ensure they provide suitable advice, firms and trustees will need to consider how behavioural biases could affect how a customer answers questions and frame questions carefully to minimise this risk. Given that both customer circumstances and retirement options are often complex, it is also likely that firms will need to supplement their automated advice solution with an option of human interaction. In these cases, a human adviser can check the customer's understanding and clarify any points if the firm needs additional customer-specific information.

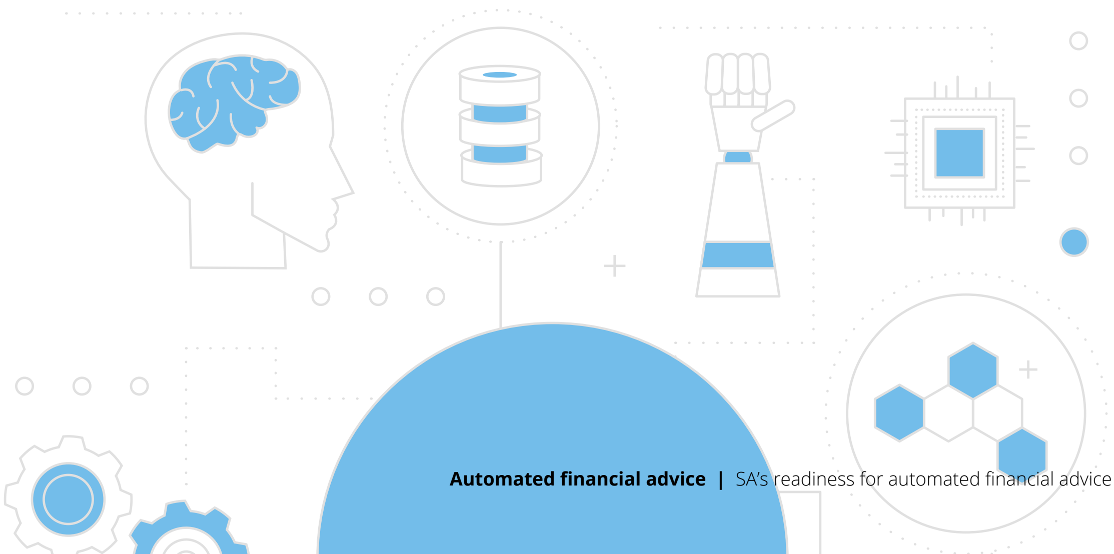
Over the longer term, as machine learning and artificial intelligence mature, we may see firms developing more fully automated advice solutions that can meet regulatory requirements and handle complex cases, but in the short and medium term, a hybrid model is more likely to be effective.

A hybrid model could also put customers at ease as our survey indicated that South Africans are concerned about the capability of automated tools to deal with complex questions and situations.

Compared to other players, the large life insurers and asset managers that are major workplace pension providers are likely to be better placed to win customers by providing automated at-retirement advice. This is due to four main reasons. First, they have the greatest scale, and with it, the ability to provide a low-cost service in the cost-sensitive South African market. Second, compared to other players, they can use their unrivalled customer data from the accumulation phase to provide more personalised advice. Third, they can use the same data to pre-populate forms making advice more convenient and user-friendly than elsewhere.

Finally, for life insurers, only they can provide annuities, which, for many risk-averse customers could be a more suitable recommendation than income drawdown.

Automation can allow advisers to spend less time on the more straightforward parts of the process, such as data capture, and instead focus on the high-value areas such as tax considerations in more complex cases – an area of high concern for South African consumers.



Individual protection

According to Swiss Re, South Africa is by far the largest market for individual protection in Africa and among the top 20 markets globally. In 2016, overall premiums in the market were estimated to be around R500 billion, with life insurance accounting for 80% of this amount. In terms of premiums written, both the life and non-life insurance market showed robust growth in recent years and is expected to continue growing in the medium term.[9]

Despite this robust growth, the country's life, disability and critical illness insurance gap has continued to widen. According to the Association for Savings and Investment South Africa, the insurance gap has tripled over the last ten years to about R30 trillion[10]. Financial literacy and affordability are key reasons for this large gap. Around two million risk policies lapsed within their first year in 2016 mostly because policyholders were unable to afford to pay the premiums.[11]

Our survey suggests that South African consumers are very open to using automated advice for selecting personal protection. This might be linked to the existence of web-based insurance quote platforms, which are widely known and used for car insurance comparison services.

Automated advice can contribute to consumer education by demonstrating the need for protection and the risk related to non-payments in a proactive way and could help close the protection gap. Consumers at risk of missing a payment could be targeted with timely communication explaining why they need protection, what the implications of non-payment are, and what to do about it, with a link to an automated advice portal. We would envisage this as being provided by life insurers or face-to-face advisers in partnership with another organisation with access to a wider pool of customers, such as a bank or retailer. However, it will be crucial to pay close attention to information protection regulation such as the Protection of Personal Information Act (PoPI) when collecting, processing, storing and sharing customer data.

9 Swiss Re Institute, Sigma No3/2017, 2017
10 i.e. Cover that is needed in the aggregate by South Africans is R30 trillion less than total cover provided by the insurance industry
11 Personal Finance, Times may be tough, but don't cancel your life cover, 2017

Leveraging automated advice tools can help to encourage more advisers to recommend protection by giving them quicker, light-touch sales channels. Two opportunities for advisers stand out. First, by using existing data that was captured in, for instance, a bond application process, application forms for the protection to cover this bond could be prepopulated. This would free up valuable adviser time on the phone asking customers for basic information. Second, websites could be used to guide customers through the relatively simple steps in the advice process before speaking with an adviser to complete the process.

This hybrid-model would save costs and would allow advisers to focus their time on the hardest parts of the process including the selection of a product. This could not only reduce the cost of advice but also increase its quality.

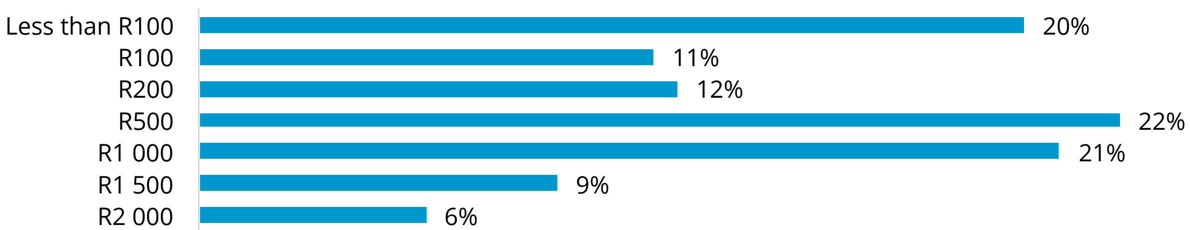
Reducing the cost of advice is crucial given that price sensitivity among consumers is a key barrier to automated advice for life insurance. About four in five survey respondents, which indicated that they would use automated advice, said that they would only use it if this channel provides a discount of at least 50% on the typical face-to-face advice. Price sensitivity is most pronounced among less affluent consumers and consumers older than 35 years.

Life insurers that distribute their products through partnerships with banks are best placed to offer proactive automated advice. This is because banks have access to a large pool of customers, including those who are uninsured. They also have data that would provide insights into the life events that change the need for protection or would indicate potential risks of defaulting on premium payments.

We note that most large protection providers currently sell their products that only required limited underwriting through the bank channel. Therefore, proactive automated advice would favour the large incumbents for these particular products.

Face-to-face advisers would be winners from a move to automate the initial steps in the advice process. This would lower costs due to less time spent on each case including cases that require full underwriting. Start-ups may lead the way in developing hybrid advice interfaces, as the key to success is an easy-to-use interface with a seamless experience when a customer moves from using the website to speaking with an adviser. Start-ups have a track record of innovation built on smooth customer experience, but might struggle to provide stand-alone services due to the high cost of compliance.

Maximum amount willing to pay for automated advice to find life insurance



Source: YouGov 21-28 November 2017, Deloitte Analysis. SA adults aged 23-65 years with an annual personal income of more than R400 000 residing in large city/urban or suburban areas

4. The future of automated advice in South Africa

While it is now common for traditional FSPs in South Africa to use computer algorithms to automate their financial advice process and to embed this into their overall digital strategy, the degree to which the automation has been implemented differs among providers.

Most providers have put digital tools into the hand of their advisers to empower them to serve clients more efficiently. Initial concerns that sophisticated algorithms might crowd out human advisers seem to be unfound. On the contrary, in an environment where margins of FSPs have come under pressure due to factors such as changing regulation, these powerful tools enable human advisers to serve a larger client base at lower cost.

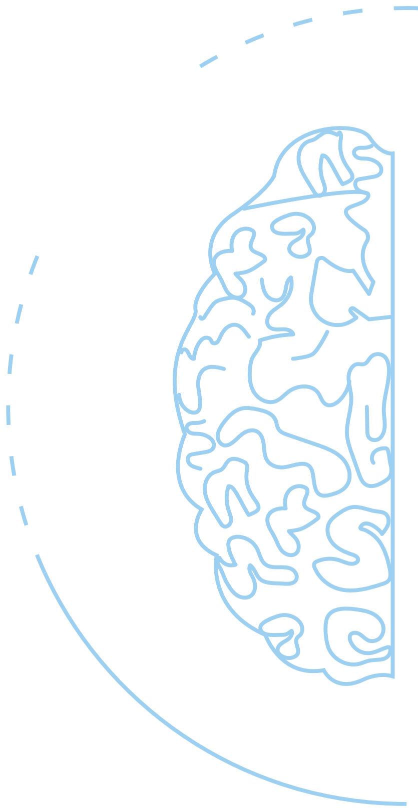
Leveraging technology also enables advisers to be better informed about a broader range of products, serve more clients than normal, and decrease their own business overheads – thereby mitigating against margin pressures. Better-informed advisers are an important step towards customer-centric advice.

Some advisers have started to put digital tools directly into the hands of their clients through online platforms or mobile applications. These tools provide FSPs with new ways to engage their customers and, by cutting out face-to-face interaction, financial advice is becoming more affordable and accessible even for lower-income earners.

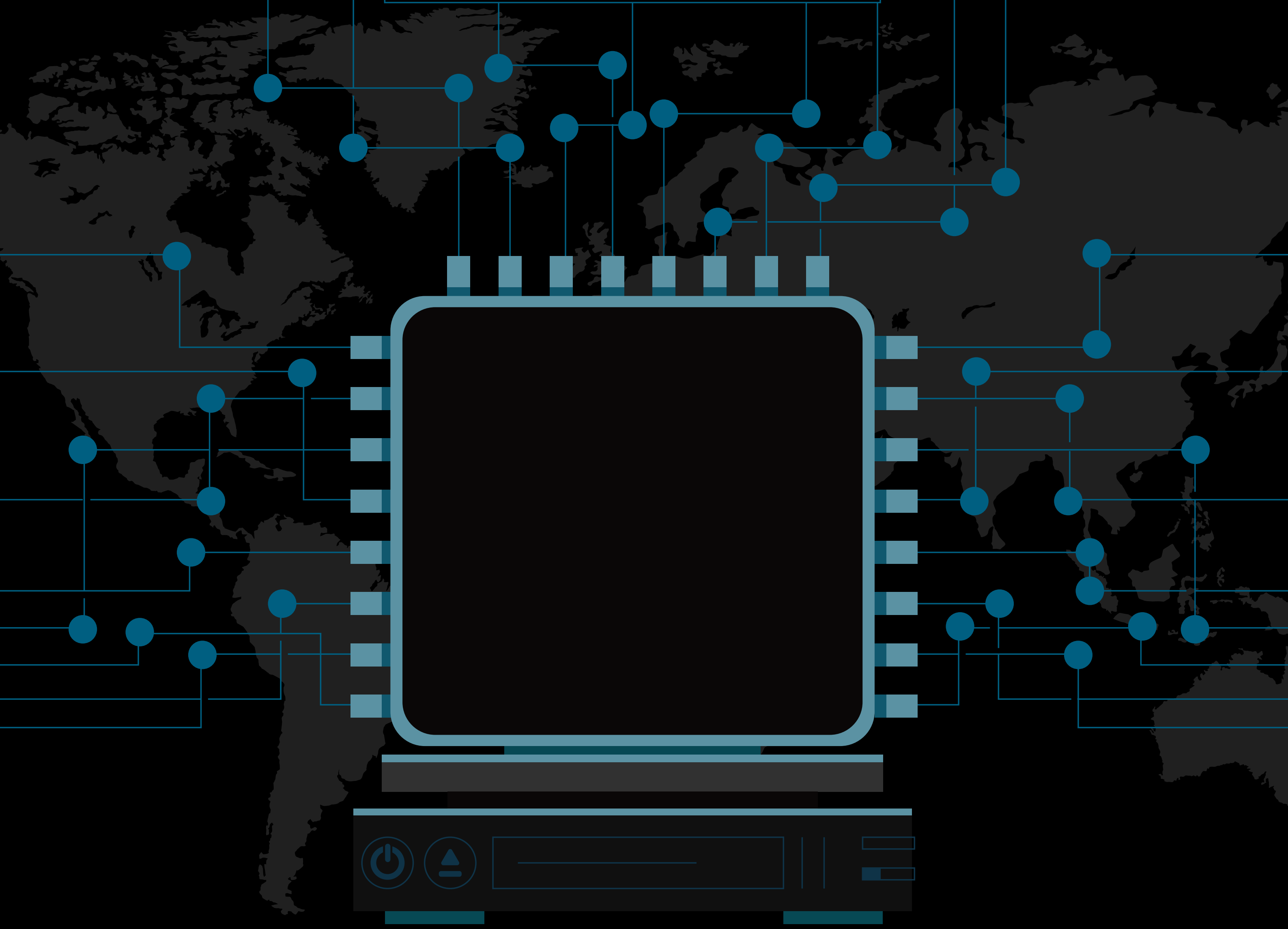
While acceptance of digital tools has increased, fully automated advice still faces certain limitations and is usually only used for single-goal or simplistic investments. Given the novelty of fully automated advice, market players have observed that most clients still require a human 'nudge' such as a phone call or webchat with an adviser to complete an investment decision online.

The introduction of automation in the financial advice space affects the relationships between various industry players. Fintech companies are often seen as agile and innovative players that have spearheaded the disruption in the industry. However, due to factors such as scalability, trust and brand recognition, some fintechs find themselves stretched to their limits and have to consider forging new alliances and partnerships to become or stay viable.

Partnerships between fintechs and FSPs tend to be mutually beneficial. Fintechs are able to leverage the brand power of traditional FSPs – an important advantage in a trust-based industry – and hence are able to reduce customer acquisition costs and scale their operations faster compared to a stand-alone offering. On the other hand, by collaborating with fintechs, traditional FSPs are able to implement automated advice platforms faster and at a lower cost.



5. Contacts



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