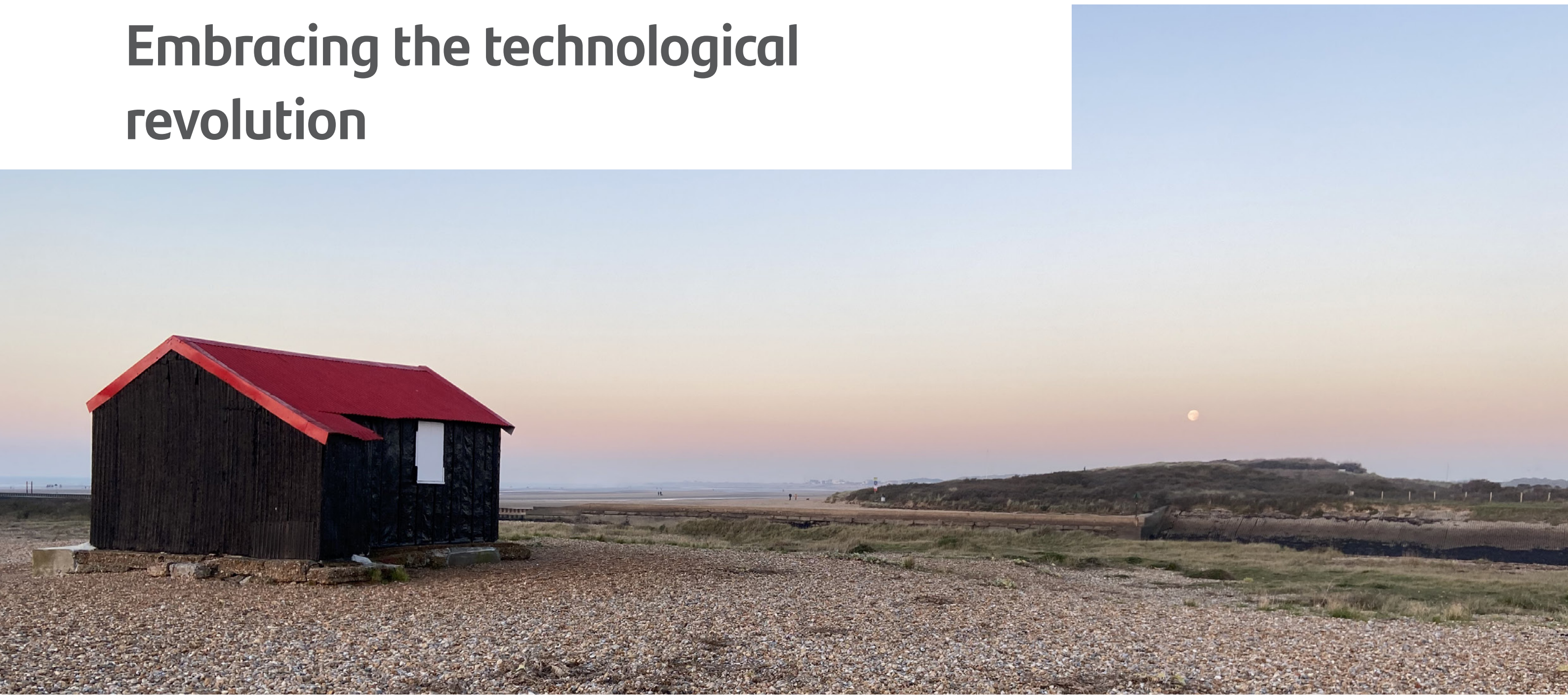
Embracing the technological revolution



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Far-reaching technological developments have opened up investing, attracting a younger market and enabling more investors to go direct. Amid all this change though, financial advice still has a crucial role to play.

As the year in which coronavirus swept all before it and we had to spend more time at home, 2020 saw a rise in demand for technological led solutions that was both sudden and extreme. Some 70% of UK adults reported using videoconferencing in April alone.[1] April also saw 47% of employed UK adults working at home to some extent, with 86% doing so as a result of the pandemic.[2]

While these statistics are extreme, the trends they represent aren't new. Rather they are a rapid acceleration of the growing influence of technology across our lives and one area in which these trends can clearly be seen is retail investment.

Opportunity or threat?

The increased sophistication of digital investing options has in some ways been a double-edged sword for advisers. While digitalisation has created efficiencies, improved processes and facilitated the tailoring of services to individual clients, it has also made it easier for investors to cut advisers out altogether.

As just one small example, several direct-to-consumer investment platforms reported an increase in trading activity during the first lockdown as investors used the extra time they had available to deal directly in Shares.[3]

Research by law firm Michelmores[4] suggests that, perhaps unsurprisingly, younger millennials are especially comfortable with using digital services. Its poll of millennials with more than £25,000 to invest found that 60% of those born in the 1990s would use 'robo-advice', compared with 49% of those born in the 1980s.

A growing appetite for investing

In fact, evidence suggests technology is an important factor in widening the appeal of investing among younger generations. A Finder.com survey conducted in summer 2020 revealed that three-quarters of millennials and Generation Z were planning to invest within the year.[5]

Low interest rates and the easier access to investing offered by trading apps were among the reasons cited by young investors for wanting to engage, contributing to a surge in online investment activity in the second quarter.

Data from funds network Calastone showed that 46% of millennial investors in the UK actively made new investments in light of the pandemic, significantly higher than the 7% to 17% of older investors that had done so.[6]

Fund platforms have reported record numbers of new registered investors since March and a sustained increase in trading volumes,[7] with several noting a particular growth in accounts opened by millennial and Generation Z customers.

Helping investors to help themselves

There are valid reasons to be concerned that investors who are unable or unwilling to take professional advice are leaving themselves open to potentially costly mistakes.

Even experienced and knowledgeable investors can fall prey to their own emotional and cognitive biases when there's no adviser available to ensure that decisions are made on the basis of rational factors. It remains the case too that a digital investment sector still in its relative infancy houses a wide range of approaches and methodologies that may not always be easy for investors to understand.

There's also a heightened risk of DIY investors being caught up in scams and investing in unsuitable opportunities, while those using services that aren't regulated may not realise that they don't have recourse to either the Financial Ombudsman Service (FOS) or the Financial Services Compensation Scheme (FSCS).

Looking at the bigger picture

Immediate challenges aside, the rise in online investing may in fact represent a broader, longer term advantage for advisers. If technology makes younger generations more inclined to engage with investment services, that creates more potential future full advice clients.

While apps and other digital services can make it easier for people to access investing without needing substantial assets, many of those investors will later have more complex needs to address. Advisers have an opportunity to reach out to a segment of the market already engaged with their investment journey and help them build on the foundations they have laid.

There are several possible approaches to this. For example, one might be to help investors navigate an ESG and sustainable investing landscape, increasingly characterised by confusing terminology, overlapping labels and a rapidly growing choice of funds and other solutions.

Investors who are in it for the long term will also experience the inevitable ups and downs over time. Until the 'corona-crash' of March 2020, those that began their digital investment journey over the past decade had known only bull markets. During times of downturn and when volatility becomes more frequent and sustained, the value of having a qualified adviser to lead the way will become more apparent.

Similarly, those beginning their investment journey in their 20s and 30s will likely build up a level of accumulated wealth that not only makes advice affordable, but almost necessary, particularly as retirement approaches and intergenerational planning becomes a priority.

The basics of advice don't change

Advisers are already responding to technological change, making their services more responsive, accessible, efficient and flexible than ever before. That will help ensure that as digital options mature and fintech evolves, they remain relevant.

As younger generations become increasingly willing to engage with investing, so the value of real-life financial advice and personal relationships can only become clearer. After all, the fundamentals of long-term investing and portfolio management never change.

The key lies in working out where you fit in, what unmet needs you can satisfy and how you can add the most value.

Learn more

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[1] Wired – How the pandemic has sped up digital transactions, 5/11/20
[2] ONS – Coronavirus and homeworking in the UK: April 2020, 8/7/20
[3] This is Money – The rise of the lockdown share trader: how buying and selling shares became popular again as Britain was stuck at home, 17/9/20
[4] Money Marketing – Millennials 'prefer robo-advice' to financial advisers. 29/1/20
[5] This is Money – Has the coronavirus crisis prompted Gen Z and millennials to start investing in greater numbers? New survey finds that three in four are now planning to, 2/6/20
[6] City AM – Investors capitalise on market volatility with millennials leading the charge, 21/7/20
[7] FT.com – Women outpace men in signing up to investment platforms, 1/12/20

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