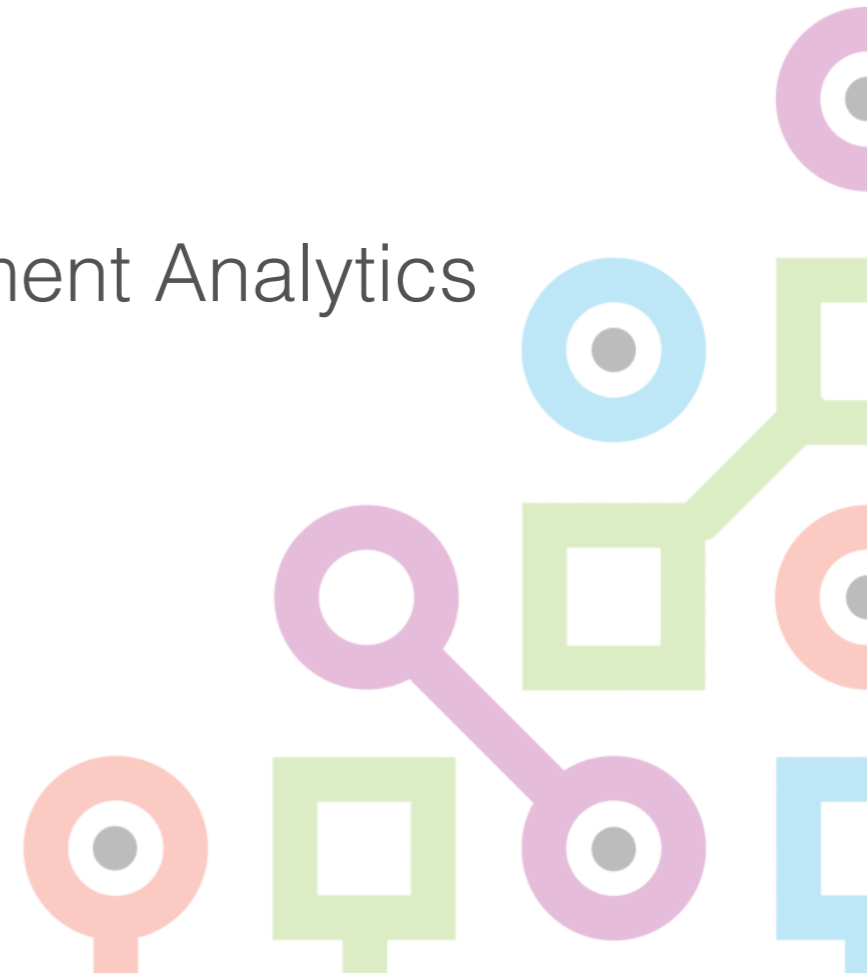# FINance & TECHnology

Global overview on Robo-Advisors: strengths and weaknesses

Paolo Sironi
IBM Risk Analytics

Wealth Management and Investment Analytics
Thought Leadership

What is going on?

Banking Redefined - *disruption, innovation and next-generation bank*
IBM Institute Business Value (2015)
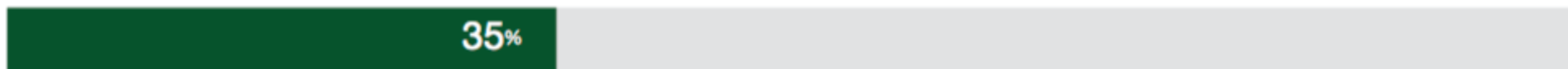insights from 1060 bank executive and 1600 retail banking / wealth management clients

Figure 1

Bankers overestimate customer satisfaction[5]

Retail banking

Delivering excellent customer experience

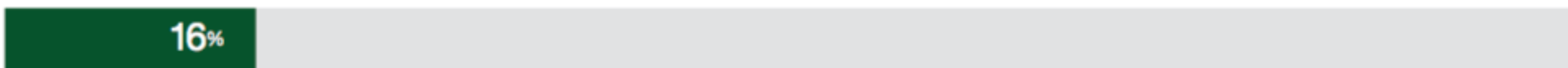| 62% |

Perceive customer experience as excellent

| 35% |

Wealth management

Delivering excellent customer experience

| 57% |

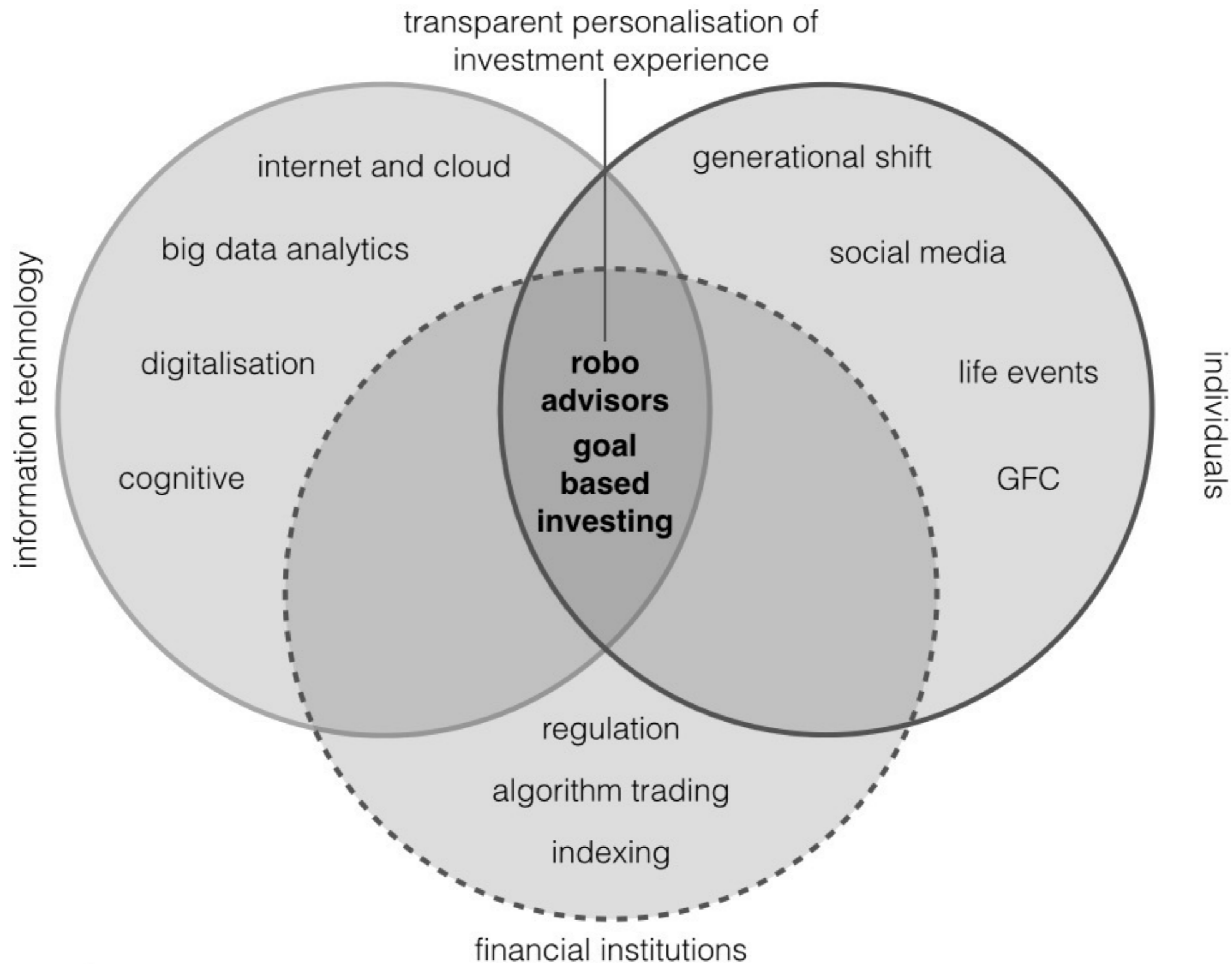Perceive customer experience as excellent

| 16% |

3

IBM

METHODS

- Passive and Active investing under scrutiny
- Cheaper investing (ETF)
- Goal Based Investing (industry's spirit)
- Probabilistic Optimisation (risk mgmt)

SOLUTIONS

- Ubiquitous internet
- Digital tools
- Big-data analytics and cognitive computing
- Robo-technology

INCENTIVES

- Transparency
- Adequacy and Suitability
- Ban of inducements & Fee-only
- Loss reputation global financial crisis

transparent personalisation of investment experience

information technology

internet and cloud

big data analytics

digitalisation

cognitive

robo advisors goal based investing

generational shift

social media

life events

GFC

individuals

regulation

algorithm trading

indexing

financial institutions

What is a Robo-Advisor?

Robo-Advisors (1.0) are automated investment solutions which provide automated portfolio rebalancing using trading algorithms based on passive investments and diversification strategies, which engage individuals with digital tools featuring advanced customer experience, to guide them through a self-assessment process and shape their investment behaviour towards rudimentary goal based decision-making.

~ by and large ~

Robo-advisors can be a disruptive global trend

The display order doesn't represent establishment date, quality nor business dimension

AUM
0.01%

2040
2030
2020
2015

transformed

Robo-4-Advisors
M&A and alliances

2014

matured

+100% AUM

2013
2012
2011
2010

noticed

venture capital
research
conferences

STRENGHT

They use advanced technology and have **no dependency** to obsolete legacy systems.

They make long-term ETF investments to **minimise costs** and institutionalise investments with more compact product catalogue.

Automated rebalancing offers clients the freedom to decide less and become less emotional about investing.

Investment decisions appear to be personalised around individual goals and timelines, generating a **sense of personal empowerment.**

Their high degree of business focus turns them into efficient **on-boarding mechanisms**.

Social media marketing is effective.

WEAKNESS

Some advance technology (eg, cognitive) might be out of reach to Robo-Advisors due to restriction in their existing budgets.

Passive management could be a limiting factor to address robo-services for a **broader banking clientele**.

They still have to demonstrate to achieve better AUM retention during a **market downturn** compared to human advisors.

Model portfolios are **not truly personalised** but very often built ex-ante: they cannot truly fit real life, with individuals bearing different and sometimes conflicting investment goals.

It might not be easy to transform into the next generation of robots, and provide **up selling services** to capture higher margins.

Marketing costs to reach the trillion level might be prohibitive.

Is it just about FinTechs?

Betterment Has Teamed Up with Fidelity Institutional Wealth Services
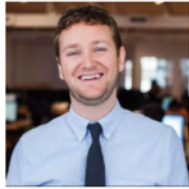
Jon Stein
CEO & Founder
Betterment

Betterment Has Teamed Up with Fidelity Institutional Wealth Services to Provide RIAs a Way to Add a Digital Solution to Their Firms

Investing has changed forever. Introducing Schwab Intelligent Portfolios™.

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An Exciting Announcement

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BLACKROCK

FutureAdvisor

Vanguard

Advice reinvented

Vanguard Personal Advisor Services®

FinTech ROBO- ADVISORS

How can we differentiate?

How can we maintain our clients engaged?

How can we service more investors' needs?

How can we fight the price competition?

How can we expand services and remain simple?

How can we acquire critical AUM size?

Incumbent WEALTH-MANAGERS

Shall we build a robo on the side or ingrain it in the main bank?

How much is it going to cost us?

Which costumers are we really targeting?

Can we use it for human advice?

Can we up sell asset management products?

Can we institutionalise added-value investment processes (private-banking like)?

What comes next?

Robo-Advisors (x.0) will also be:

institutional solutions (Robo-4-Advisors)
services for financial institutions (Robo-as-a-Service),
advanced GBI tools with advisory / planning (Robo-Retirement)
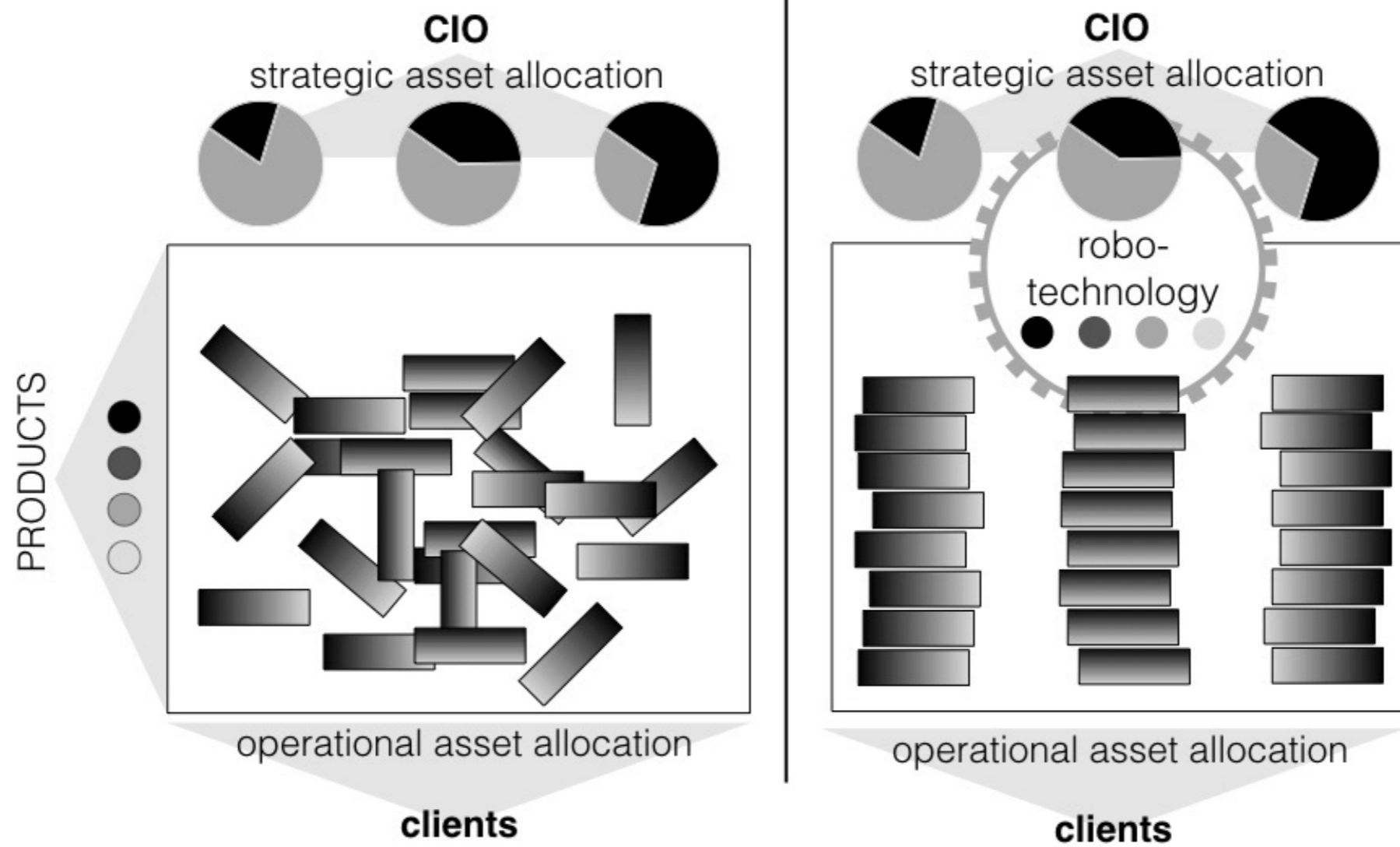
Paolo Sironi

Wealth Management and Investment Analytics - Thought Leadership
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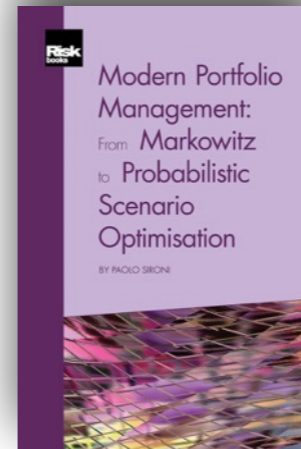 paolo.sironi@de.ibm.com

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www.riskbooks.com/modern-portfolio-management-from-markowitz-to-probabilistic-scenario-optimisation

Thank you