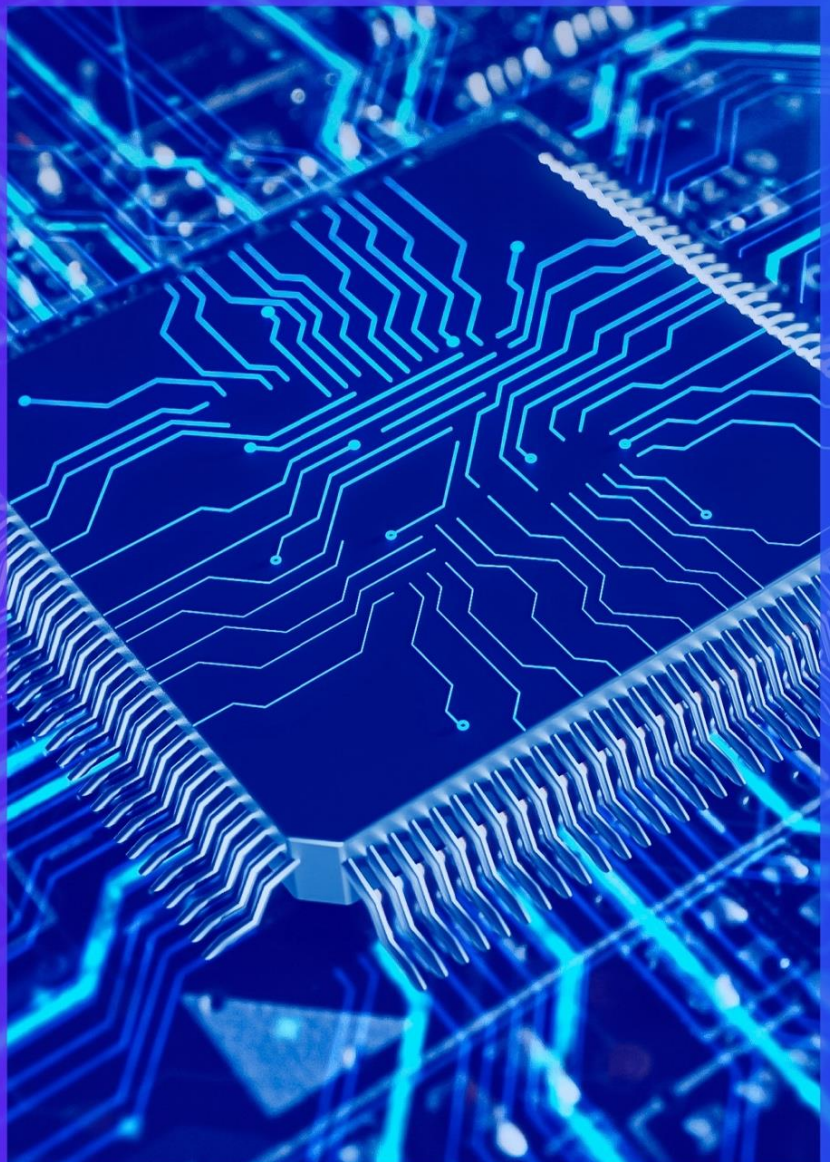




The Race for Robo Advice

Building trust and accelerating growth



August 2024

[kpmg.ie](https://www.kpmg.ie)

The Race for Robo Advice

Introduction

Following on from our article 'Taking Charge of Financial Advice' we discuss the growing concept of Robo Advice. In the rapidly changing world of Financial Advice, technological innovations continue to reshape how financial institutions interact with customers. One such innovation that is becoming increasingly prominent is Robo Advice. These automated advice platforms have emerged as cost effective and convenient ways of managing finances for both individuals and financial institutions. Robo Advice presents an opportunity for financial providers to gain a competitive advantage but with this opportunity, comes heightened risk and implementation challenges.

Robo Advice is advice provided by algorithm based systems that provide automated financial planning services with lower costs and limited Financial Advisor interaction. These algorithms analyse various factors such as a customers risk tolerance, financial experience, financial goals and market conditions when tailoring financial advice for investors.

The growth of Robo Advice can be attributed to a variety of factors, particularly Artificial Intelligence ("AI") and machine learning which have enabled these platform to offer personalised investment advice to individuals based of their diverse needs and investment preferences. Other reasons for the increased popularity of Robo Advice is the cost efficiency of the platform and the rise of digitalisation has enabled investors to manage their investment portfolio's from their computer and mobile device.

The accessibility of Robo Advice offers a unique opportunity for financial providers to transform their customer base. By leveraging technology based systems Robo Advisor platforms offer customers easy to use online platforms and mobile apps. These platforms can be accessed anytime and anywhere without the need for face to face interactions with a Financial Advisor. Robo Advice has the ability to transform an organisation by allowing it to interact with a larger range of Investors across the globe.

Robo Advice is beginning to revolutionise the investment landscape but like any financial tool it comes with its own set of risks for financial providers such as data privacy risk, transparency risk and a lack of human oversight that is needed to identify vulnerable customers.

Rise of Robo Advice

Robo Advice is becoming increasingly popular globally as a tool for financial institutions and has an increasingly large presence in the Financial Advice industry.



Journey So Far

- Robo Advice's popularity has rapidly increased in recent years and is becoming a leading tool in the Financial Advice market.
- Looking back to 2018, where just over \$5 billion assets were under the management of Robo Advice, this is estimated to grow to over \$1,800 billion in 2024.

USA

In the United States, assets under the management of Robo Advice is set to reach \$1,459bn in 2024 with the market growing at over 7%. Many of the largest financial institutions in the world see the enormous potential of Robo Advice and are offering the service to their customers.

IRE

We also note the increased presence of Robo Advice in Ireland with one of the largest financial technology companies in the market offering Robo Advice services to Irish customers in February 2024.

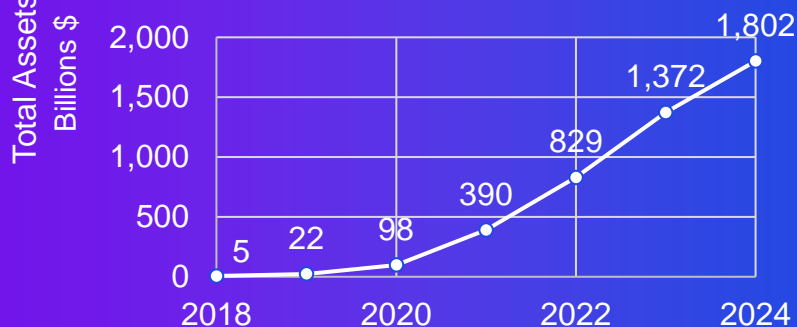
AUS

In Australia, the assets under management for Robo Advice are growing at over 8% and are estimated to reach \$9.96bn in 2024.

UK

Similarly, in the UK the market is also growing at over 8% and assets under the management of Robo Advice looks set to reach of \$26.2bn in 2024.

Assets under management of Robo Advice



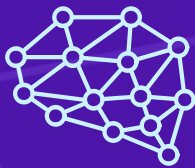
Key Benefits

Wider Demographic of Investors



Robo Advice offers more accessible financial advice, so financial institutions can reach a wider demographic of investors with their product. It allows companies to reach younger retail investors who are more familiar with digital transactions than traditional financial advice. By leveraging these AI based systems, companies gain a competitive advantage in the race to access the new generation of investors.

Data Insights

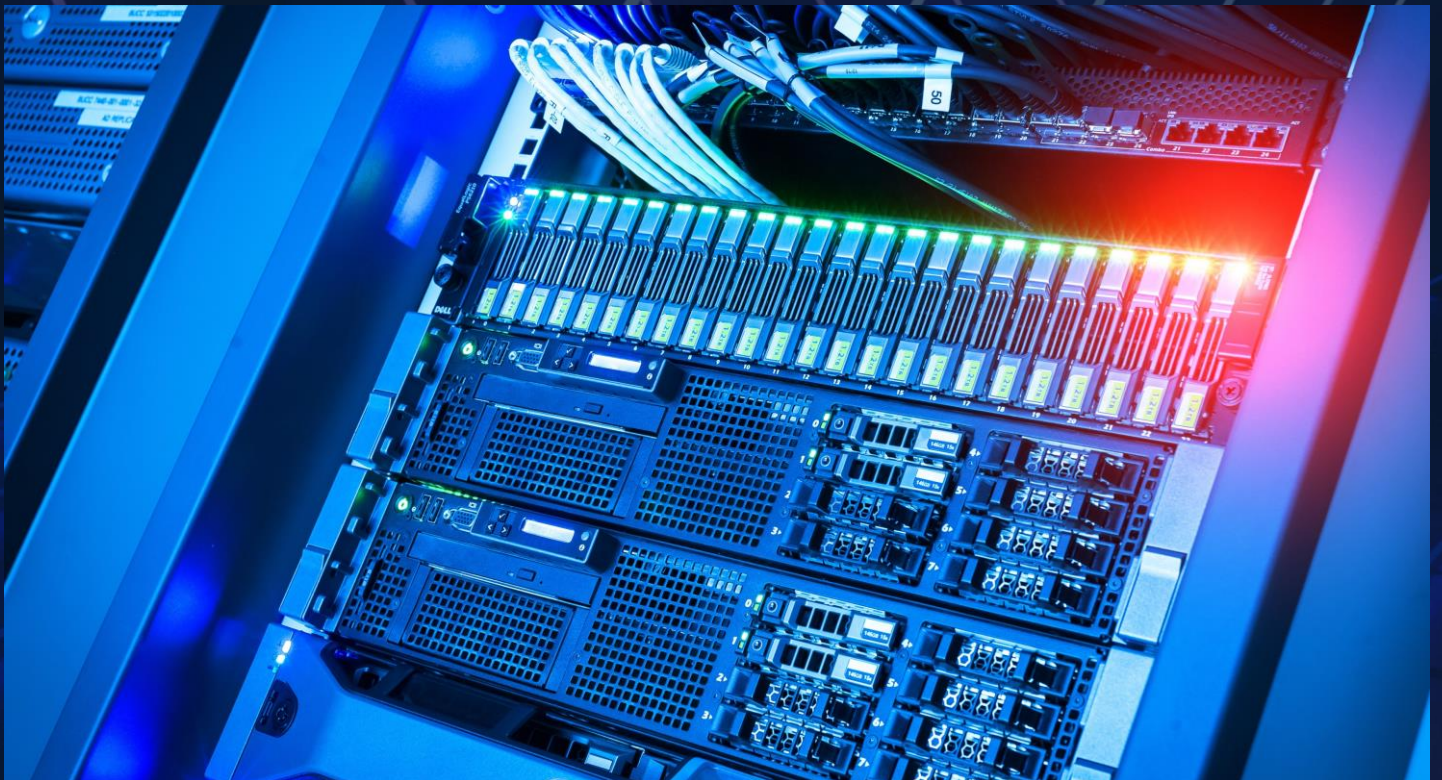


Robo Advice systems collect a large amount of data on informative areas such as market trends, customer behaviours and customer preferences. Financial institutions can leverage this information to inform new and tailored client offerings.

Enhanced Efficiency



Robo Advice enables firms to make cost and time savings by automating and streamlining manual processes which also offers a greater degree of accuracy. These AI based systems allow Advisors to focus on more strategic tasks, enhancing the overall offering and increasing scalability with a hybrid model.



Enhanced Regulatory Focus



Consumer Protection Code (“CPC”) 2012:

The Code has guidelines that financial service companies must adhere to when offering advice to their customers. The Central Bank of Ireland (“CBI”) provided amendments to the code in March 2024 by introducing Principal Policy Proposals.

- One key Proposal is the ‘**Securing Customers’ Interest**’ obligation which aims to provide guidance on how firms should approach meeting their customer’s best interest.
- A second key Proposal is the ‘**Digitalisation**’ obligation which aims to ensure firms apply a customer focus in the design and use of their technology systems. Companies must ensure their digital systems don’t exploit the behaviours, biases and habits of their customers. Companies transitioning to digital based systems (e.g. Robo Advice) must consider negative impacts on their customers.
- Another major Proposal is ‘**Protecting Customers in Vulnerable Circumstances**’ which requires firms to ensure customers in vulnerable circumstances are not disadvantaged. The Code recommends that firms embed an understanding of vulnerability across the organisation.

The **Individual Accountability Framework (“IAF”)** and **MiFID II** regulations also apply to the use of Robo Advice. The KPMG ‘Taking Charge of Financial Advice’ article provides details on these key regulations.

Investigations and Sanctions

Financial institutions are likely to come under increased regulatory scrutiny as a result of the technology’s heightened risks. The integration of Robo Advisors sparks regulatory, data protection and customer satisfaction risks.

Financial institutions offering Robo Advice will need to establish robust end-to-end processes and a wide range of proactive and preventative measures in order to mitigate these risks.

In recent years we have seen an increase in the number of investigations and sanctions placed on financial institutions for failing to meet regulatory standards and expectations in respect of financial advice provided using Robo Advice. Similar sanctions are likely to occur as the popularity of Robo Advice continues to grow worldwide.

€187 million

In June 2022, a large financial institution in the United States paid €187 million to settle an SEC investigation into the firm’s Robo Advisor platform.



Key Risks of Robo Advice

01

Transparency

The level of an organisations AI model’s opacity will determine it’s risk level. If the AI Model lacks transparency and traceability, this will pose challenges to the organisation. Financial providers must have oversight of where and to who their product is being marketed.

02

Data Privacy

Platforms have the capacity to gather large amounts of private customer data. It is therefore imperative that this personal and sensitive data is collected and retained securely to ensure organisations are not in breach of data protection regulations.

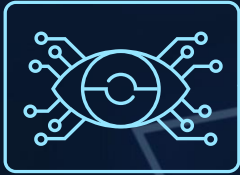
03

Vulnerable Investors

Investors must be assessed in a thorough manner to identify vulnerable or unsuitable investors. A challenge with Robo Advice is that it lacks a human interaction element which can make it difficult to identify any perceived or actual vulnerabilities that may arise at the outset or at any point in the customer lifecycle.

Integrating our Financial Advice and Trusted AI Frameworks

Ethical Integration of AI Governance



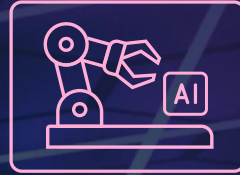
In this phase, we define and integrate core ethical AI principles and governance standards by conducting a comprehensive review of the current state of Robo Advice systems using qualitative and quantitative data. We then integrate a set of ethical AI principles that cover fairness, transparency, privacy, security, and accountability. This sets the benchmark for financial advice quality and AI system performance.

Data-Driven Risk Management



During this phase, our focus is on identifying "Hot Spots" or areas previously known for issues and deep dive into potential systemic risks in Robo Advice systems. Using our AI Risk & Control Matrix to identify and establish controls for mitigating risks, including comprehensive assessments of AI impact and compliance, we can implement proactive remediation strategies in these high-risk areas.

Automated Compliance and Monitoring



This phase focuses on closing the gaps, solving the Hot Spots where conduct and compliance associated with the Robo Advice systems are lacking in the financial advice offering. We use large-scale data models and AI to implement proactive measures. Regular monitoring and evaluation of the Robo Advice systems is carried out to ensure they adhere to ethical principles and perform effectively.

Sustainable AI Practices



Finally, we define the future state of your Robo Advice systems and assess what is working well to embed the most sustainable and prevention-focused assurance solution. Going forward, our aim is to promote transparency, establish clear accountability, and continuously update AI governance frameworks based on feedback and evolving standards in this rapidly changing space. Fostering an ethical AI culture from the outset is essential and will require a sustained, consistent and focussed effort.

Our Powered Vision

The use of RegTech and AI is critical for organisations to manage their conduct risk. Our purpose-built tool incorporates these to ingest datasets held by an organisation in respect to their Robo Advice system and customer bases. Data such as customer complaints, transaction type and quality assurance records are analysed and interrogated using natural language processing models. The output is displayed on dashboards enabling trend and anomaly analyses which ensures continuous assurance.

Why KPMG

Our team is well-versed in the expectations of the CBI and has experience in leading large-scale regulatory change and remediation programmes.

We can help you identify where change is required, and to secure the greatest possible impact, ensuring that you are aligned to regulatory expectations.

In an ever-changing regulatory landscape, our deep expertise in risk, compliance and regulatory environments, coupled with our incorporation of RegTech, can deliver a unique and proactive solution to allow you to monitor compliance and identify trends or potential issues. In turn, providing faster and real-time insights to maximise efficiencies and consumer satisfaction, while minimising exposure to conduct risk.

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