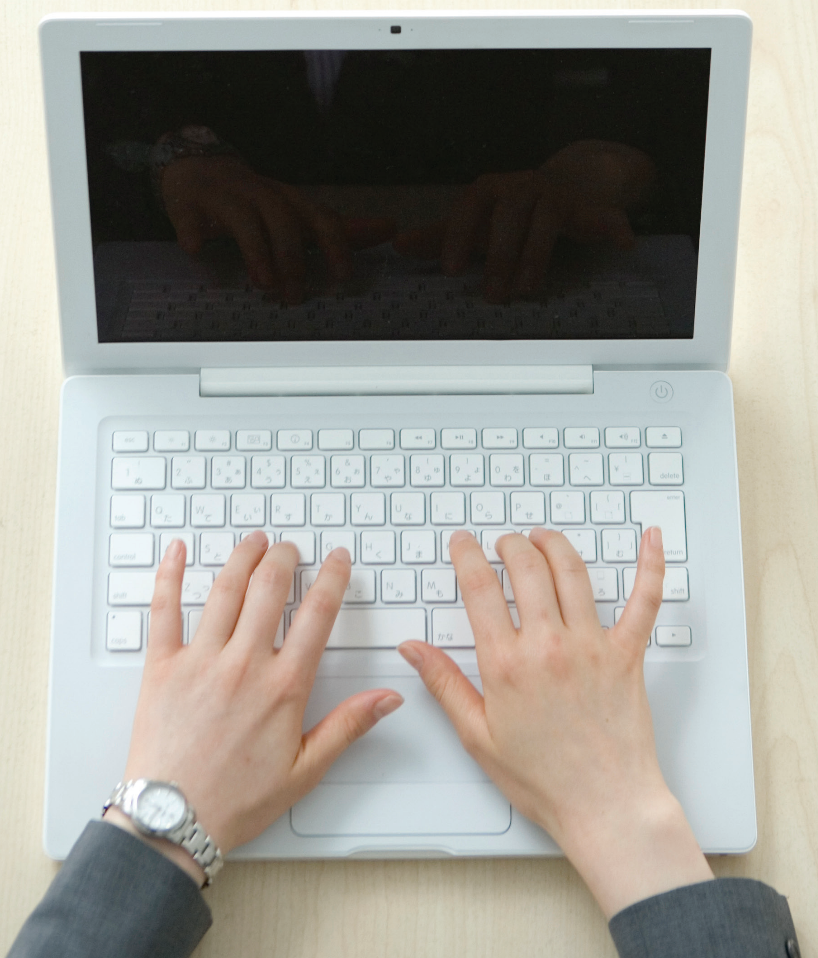
Robo-advice

Revolutionising the investment landscape.



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Robo advice

Revolutionising the investment landscape

Robo-advice is revolutionising the investment landscape. Yet, four years on from its invention, a universal definition of the buzzphrase remains elusive. It doesn't help that it's an exaggerative, misleading term, which conjures images of androids issuing face-to-face financial advice to clients.

In truth, if we take robo-advice to mean digital wealth management services, providing automated, algorithm-based portfolio management services, then robo-advice is in fact nothing new. Financial advisers and wealth managers have been using similar technologies for quite some time, to service the needs of clients – what's new, is that the wider public can use these tools for the very first time.

Opportunities

The arrival of robo-advice creates opportunities for both financial professionals and consumers alike. For one, millions of people across Europe have previously been deterred – or outright excluded – from seeking professional financial advice due to cost and minimum asset requirements.

Robo-advisers challenge this state of affairs, by charging significantly lower fees than traditional advisers and wealth managers. The improved access they offer significantly increases the potential size of the advice market, theoretically unlocking a vast amount of previously untapped wealth in the process.

Moreover, the growth of robo-advice lowers the wealth management sector's barriers to entry, allowing more businesses to break in to the industry, and create a highly competitive, innovative market. Banks, asset managers and insurers alike may all be adding robo-advice services to their offerings in the near future, and standalone robo-advice firms are already multiplying in number.

Currently robo-advice typically centres around portfolio management services, such as asset allocation tools that select funds or assets based on criteria such as risk appetite and target date of retirement. Nevertheless, some wealth managers have begun investing heavily

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in quantitative analytic tools and algorithms, and broadening the range of advice that can be delivered digitally in the process.

We already see it being offered in multiple channels, including company pension schemes, where employees can modify and monitor the performance of their scheme's investments over time.

Demand

While robo-advice is still in its infancy, and awareness of different options available on the market is low, the public is highly enthusiastic. A survey KPMG recently conducted suggests 80% of retail bank clients aged 18-34 are "very likely or somewhat likely" to consider using robo-advisers if their bank offers them. The collective disposable income, buying power and future earnings potential of this group is clearly up for grabs.

The appeal of robo-advice to millennials isn't surprising – they're digitally savvy, and have become accustomed to managing many of their affairs on the web, whether it's checking bank statements, making purchases or paying bills, although this is increasingly the case for older generations too.

People of all ages instinctively turn to the internet for guidance on almost everything today, and searching for information and recommendations on Google could even be considered a rudimentary form of robo-advice. Accordingly, our survey found that 75% of retail bank clients overall are "very likely or somewhat likely" to use robo-advice if it's available.

Retirees themselves are becoming an increasingly cash-rich constituency, with reforms such as the UK pension freedoms freeing up retirees to spend their pensions as they wish. This demographic desperately needs help to make the right financial decisions, but may be discouraged from seeking professional advice due to cost.

Technophobia

Given the evident interest in robo-advice on the part of consumers, and their clear need for low-cost financial advice, it's no surprise the sector is forecast to grow significantly over the next decade.

While this is undoubtedly good news for firms that already offer robo-advice, many institutions have been slow to adopt these services. This may be attributable to the widespread suspicion on the part of advisers and wealth managers that machines could supplant them. Could robo-advisers render human beings surplus to requirements, just as passive investment vehicles are slowly eroding active managers' market share?

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The truth is, while robo-advice is having a revolutionary effect on financial services, rumours of the death of human involvement in finance have been greatly exaggerated. While we should never say never when it comes to technology, robo-advice is nowhere near capable of fully replacing a trained human, and this will remain the case for the foreseeable future.

Humans and machines bring different strengths to the table – the former score highly on innovation, interpretation, adaptation and judgement, while the latter are consistent, quick, agnostic and able to cope with complexity. An optimal approach would be combining these respective strengths, rather than replacing one with another.

The real challenge for the financial services sector is adapting to the new market milieu, and making appropriate investments and internal reforms to ensure technology is enshrined at the core of their approach. Implementation of robo-advice can be challenging in itself; as with any new product or service, launching a robo-advice solution is a major undertaking for a business, which means transforming operating models entirely, and ensuring the appropriate people, processes and technologies are in place to support it.

KPMG is taking a lead in helping firms large and small to incorporate robo-advice capabilities within their existing service offerings, creating hybrid models that merge science and human input, and help increase value for clients across the wealth spectrum.

The future

The industry has little choice but to overcome whatever fears they may have and embrace robo-advice. Its proliferation must be viewed in terms of opportunity, rather than threat. After all, fighting the inevitable amounts to bad business sense in this case.

For instance, robo-advisers may not pose a major threat to larger wealth managers and advisers that don't target smaller clients, but technology is driving demand for improved convenience, speed and transparency across all demographics. Dedicated robo-advice firms are growing in number and size, and failure to act now means competitors seize the opportunity instead.

Estimates of how much the assets managed by robo-advisers will multiply by over the next decade vary, but are always high, ranging from hundreds of billions to a few trillion. What's clear is that the present shift towards digitalisation is unstoppable, and has implications for firms of all sizes.

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