Robo-Advisors: New Reality for Wealth and Asset Management

This article is an extract of the CH&Co.'s Fintank yearly publication.

This article is an extract of our CH&Co. Fintank yearly publication on Innovation for Financial Services. The 2018 edition addresses ways for incumbents to collaborate with Fintechs, Insurtechs and Regtechs through technologies driving the industry's digital transformation.

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Robo-Advisors: New Reality for Wealth and Asset Management

In a rapidly changing environment where users expect real-time access to services, Robo-Advisor digital asset management platforms are a notable entry into the world of asset management. Across the Atlantic, these platforms have grown dramatically in recent years – the iconic American Robo-Advisor, Betterment, valued at more than $700M, now manages more than $7B in assets by offering an innovative approach to customer relationship management through a cost-effective solution.

"The biggest thing robo-advisors are doing is giving help to people who never had help before."
Chris Costello, CEO of Blooom

ROBO-ADVISORS OFFER ACCESSIBLE AND COMPREHENSIVE SAVING SOLUTIONS FOR INVESTORS AND CONSUMERS

The value proposition offered by Robo-Advisors resembles that of offers targeted to patrimonial clients, as extended by private banks and managers. However, Robo-Advisors intend to democratize Wealth Management by offering products with very low entry thresholds, reduced management fees and transparent communication on earnings and commissions, enabling all investors, irrespective of the size of assets, to access services usually reserved for the most fortunate clients.

Robo-Advisors also offer enhanced user experience, using gamification or financial education, and fully digitized customer experience with accessible service on all terminals (anytime, anywhere, on any device). Some traditional asset management players (insurers, private bankers, third-party managers) first considered Robo-Advisors a threat - where a disintermediated or deteriorated customer relationship with advisors was replaced by "robots" with a model favouring passive management to the detriment of active management. Now, the majority of these players see it as an opportunity to integrate a complementary model into their existing activities, enabling them to better serve their existing customers and access new clients – mainly those whose financial assets represent less than $200K, previously considered too unprofitable to be the preferred target of asset managers.

While traditional asset management typically targets clientele over 55 years of age, in the disbursement and nearing-retirement phase, the low cost of solutions made possible by automated allocation management and part of the customer relationship allows them to target younger clientele (Generation X, Y), despite having lower wealth and being in the accumulation phase. Financial institutions' interest is to capture this high potential clientele at an early stage, and help them to build their assets and manage their financial projects.

"Robo-Advisors target the population between 38 and 55 years old, in "accumulation phase" by providing simple and automated offers. Are they a threat or a benefit for traditional players? It should be seen as a complementary model to existing activities to serve their clients".

ROBO ADVISORY MARKET, A CONFIDENTIAL MARKET BECOMING A REAL WEALTH MANAGEMENT MARKET

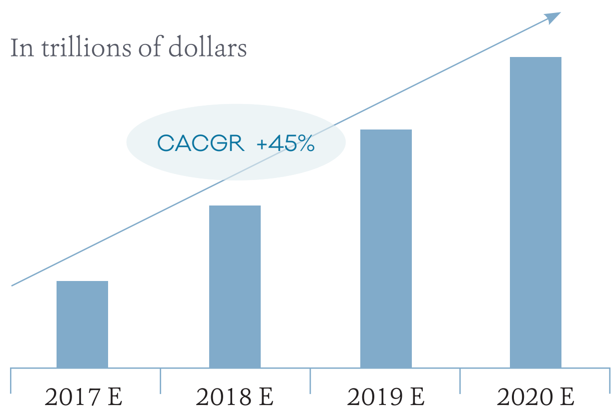
Generally speaking, the Robo-Advisor segment represents a small but rapidly growing share of the Wealth Management market. Recently-formed (i.e., in the past few years) U.S. startups have developed rapidly, with some having over $5B in assets under management (AUM), and a total of $20B overall for these start-ups. If today's global market is estimated to be worth $200 – 250B of assets under management ($135B in 2015), it should grow to 10 times that amount by 2021.

In the past 10 years, Robo-Advisors have made massive investments in the U.S. and, more recently, in Europe. With the United States as the market leader, the average portfolio size currently varies between US$20K and US$100K, with emerging new solutions targeting High Net Worth Individuals.

The Robo-Advisor market currently attracts users from mass market to High Net Worth Individuals, and from baby boomers to millennials. Global forecasts estimate AUMs to reach US$1,063,844 million, the number of users to grow by 776% between 2017 and 2021, and to reach 95.4 million users in 2021.

Estimated global robo advisory market size

In trillions of dollars



Source : Based on a study by A.T. Kearney, Hype vs. Reality: The Coming Waves of "Robo" Adoption

Key figures of robo-advisory market

Market leader	
Average portfolio size	Between US$20K-100K although new solutions target HNW
Main target	B2C, B2B expansion and B2B2C
Major Client Segment	From mass market to High Net Worth Individuals, from baby boomers to millennials

Source : Based on a study by A.T. Kearney, Hype vs. Reality: The Coming Waves of "Robo" Adoption

Global AUM by country (US$ millions)

US	$182,505
China	$27,138
U.K	$6,551
Japan	$2,428
Canada	$1,874

Source : Statista, May 2017.

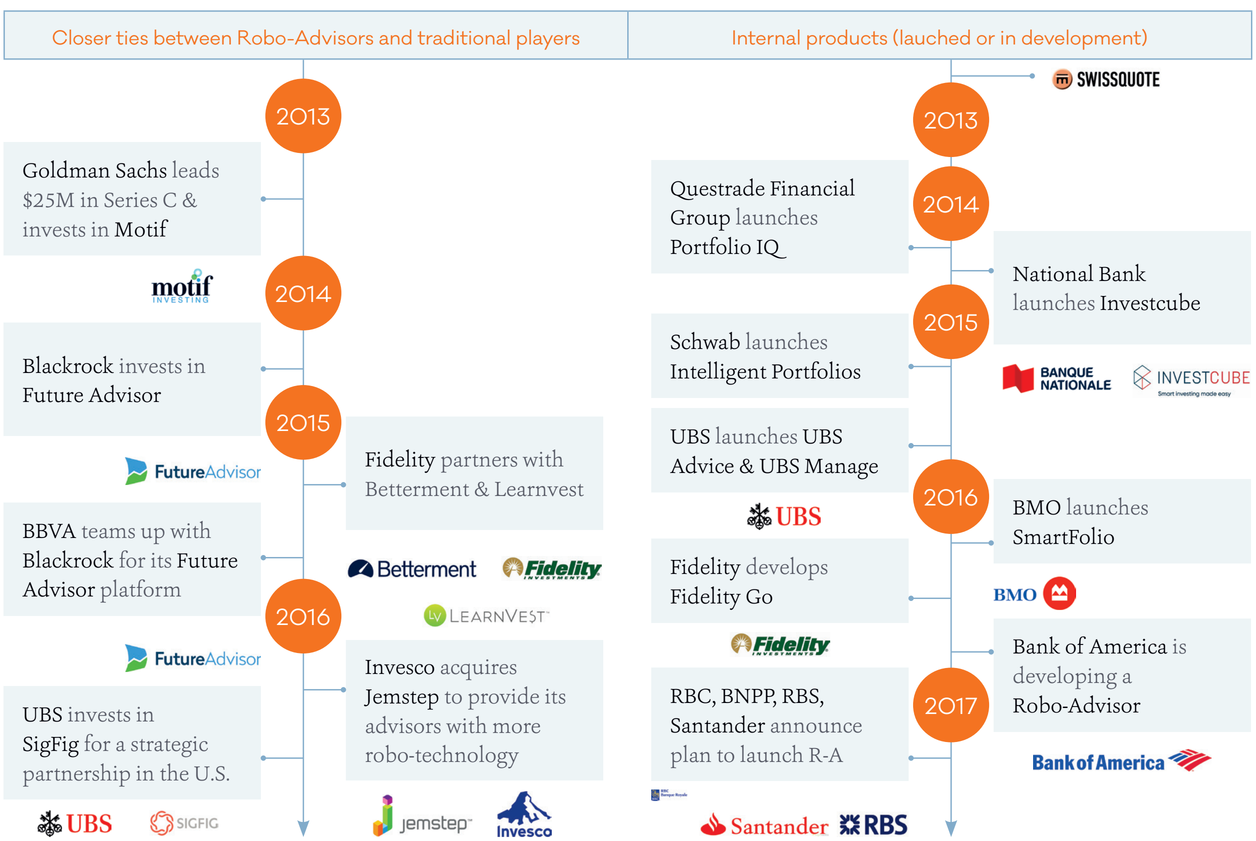
TRADITIONAL PLAYERS (PRIVATE BANKERS, ASSET MANAGERS, RIA'S, INSURERS): FROM CURIOUS TO NEW ROBO-ADVISOR PLAYERS

Although the Robo-Advisor market is still young, many support its development and, in particular, traditional players (private banks, retail banks, life insurance companies) show interest. Over the past two years, new offerings have spread quickly across the market.

Some traditional players, such as Vanguard, have decided to move their entire retail clientele to an automated advisory platform, while retaining advisors to manage the relationship with clients whose patrimonial situation is more complex or more profitable.

Other traditional players have launched their Robo-Advisor offering by developing their own (Schwab with Intelligent Portfolios, BMO with SmartFolio, etc.), or by acquiring an existing start-up, such as Blackrock with FutureAdvisor or Invesco with Jemstep. The US market has more than doubled each year since 2014; Robo-Advisors will become standard by 2020.

Nearly all financial institutions are considering integrating a Robo-Advisor within their platform to automate portfolio management and digitize a large part of the customer relationship. If this trend has been slow to start, it is set to accelerate in 2017 and 2018 with the arrival of many traditional players on the market (Fidelity, BoA, BNPP, and Primonial in France).



ASSET AGGREGATION: A KEY ELEMENT OF THE WEALTH MANAGEMENT VALUE CHAIN

Automatization of advisory or discretionary portfolio management for securities accounts or life Insurance contracts is the first stage tackled by FinTechs in the Wealth Management value chain. Now, new stages are provided by FinTechs with a common key element: Asset Aggregation. As per Yannick Gaillard, Director at CH&Co., "Robo-Advisors will be fully integrated into traditional models to complement and optimize their wealth management offerings".

Indeed, Robo-Advisors represent a real opportunity for 'traditional' financial institutions. They make it possible to serve a population that did not previously have access to advisory or financial investment management services, and paradoxically accounts for 44% of the financial assets, including clients with a strong potential (Generations X, Y and Millennials). These new players in the asset management sector are democratiz in many of the services once reserved to wealth customers. Additionally, Robo-Advisors can respond to some of the challenges that traditional players face: new customer requirements (24/7 service, multi-channel access, transparency, etc.), regulatory requirements, low interest rates that reduce investment margins.

These platforms bring real improvement to user experience with a new approach to customer service:

- Automation of many processes with "low added value for the customer" favouring speed of execution and feedback;
- Tailoring to the client's objectives and limiting to the strategic aspect of the portfolio (not the human aspect);
- Access to (almost) all, regardless of the size of the investor's portfolio;
- Focus on the financial education of the investor and on his/her responsibility regarding the investment decision.

The hybrid robo-advisor Vanguard, rolled out of beta last year and partnered with data aggregator Envestnet Yodlee. According to Katie Hirt from Vanguard, the aggregator offers a more intuitive experience for clients, who will then have a more comprehensive view of their portfolio. This will enable personal advisers to discuss the total portfolio with clients.

This change is an opportunity for asset managers (insurers, RIAs, private bankers) to redefine their business model and thus improve the quality of service offered to their existing clients, as well as to target a poorly served population at the present moment.

We believe that this is the first step of a big change to the Wealth Management business model, with new technology integration such as Robo-Advisors, asset aggregation, asset management, to provide new user experience.

It is real disruption: digitization will go further and touch the main bricks of the of Wealth Management business.

Wealth Management

Global wealth diagnosis

Investment Management	Wealth transfer	Tax	Planning dedicated to entrepreneurs	Other services
Review of the portfolios and risk analysis	Retirement planning	Tax planning	Business needs assessment	Performance reporting
Strategic asset allocation	Succession planning	Tax efficiency	Cash management and capital needs assessment	Distribution of savings products
Tactical asset allocation			Business valuation	Financial education of younger generations
Monitoring and reporting			Transfer of the cmpany	Administrative services (assistance to statements)
Financial projection (on objectives)				Networking
Preservation				Risk management and insurance
				Credit management

Impact of robo-advisors on wealth and asset management — Existing / Likely / Limited

Source: interviews, CH research, CH analysis

In this context, we are convinced that aggregation of assets is a key element in this transformation. Aggregators will take a central position between end customers and financial institutions; aggregators will make it possible to consult all accounts and contracts at the underlying level. Aggregators, in the long term, will enable transactions between financial institutions. By offering complete vision of all its accounts and contracts to the client, the aggregator is the first step towards wealth diagnosis or strategic allocation. Finally, it is a major element in improving customer experience; according to a recent study by Salesforce, 76% of investors said a holistic view of their accounts was a key factor in choosing a financial advisor.

FinTechs such as BudgetInsight or eWise and Robo-Advisors such as Betterment or Wealthfront deeply understand that expectations and service offers go beyond the initial offers provided by Yodlee or Mint.

These new offers enable users to collect financial assets and aggregate them at asset class or sub-asset class level; they allow Robo-Advisors or advisors to provide investment proposals or manage assets with a global vision of the client's assets. They facilitate a customized approach in advisory, highly appreciated in the new regulatory context, such as, in Europe, MiFID II or PSD2.

After the first step, traditional players should continue their evolution and remain inspired by their agile FinTech competitors. The path to digitization does not stop with Advisor 2.0 or the "simple" Robo-Advisor. Deeper digital transformation will be needed and lead to a full review of the user experience. Essentially, this mainly involves reviewing the business and the operating models of wealth and asset managers to address the needs of their clients. New Wealth Management advisory is a mix of human and robot; a human-bot who aggregates assets and provides strategic allocation for a complete advisory.

Acknowledgements & Contacts

CH&Co. Digital Expertise

We are deeply involved in growing the global FinTech community and use our knowledge to enhance our public Fintank.net database. We cofounded FinTech hubs, such as FinFusion in Montreal or Finance Innovation in Paris, and regularly co-organize FinTech meetups in New York, Singapore, France, London and Geneva. The events unite leaders from the Financial Services industry, startups and other innovators featuring panel discussions, demos and insights from our FinTech experts that are among the world's top influencers.

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