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A Study of Robo-Advisory Services in India vis-a-vis Traditional Investment Advisory Services

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Abstract: *Robo-Advisors refer to web and algorithm based software platforms which offer fully automated financial investment advisory services without human intervention. These robo-advisors appeal to the new-age investors as they provide simple user interface, online convenience, transparency, integrity and quality advice, free of any biases. Robo-advisory is no threat or a replacement to the off line traditional financial planners who provide personalised and customised financial advice. It is simply a surrogate manner of investing. Artificial Intelligence is eventually supported by human intelligence. Robo-advisory fully automated process without human influence is in a very nascent stage and also has a small market in India. In India, not only start-ups but established financial advisory services such as Birla, Bajaj Capital, ICICI securities and Sanctum Wealth Management are hopeful and confident about the future of robo-advisories in India and have started entering this segment either through in-house products or through partnership with leading fund houses. The equity market in India is well regulated and those financial advisors who want to provide robo-advisory services have to follow the rules and regulations laid down under SEBI (Investment Advisors) Regulations, 2013.*

Objective of the Research: *To study and analyse the potential of Robo - advisory market in India vis-a-vis traditional advisory services.*

Key Words: *Robo-Advisory, Traditional Advisory, SEBI, High Net-Worth Individuals, Technology, Algorithm, Working of Robo-advisory system.*

1. Introduction:

India is a developing economy growing at a fast rate compared to other Asian Economies. Wealth management and financial advisory-based industry of India have started using software platforms for offering fully automated investment services without any human intervention. These wealth management companies are Robo-advisors. Robo-Advisors are an outcome of “Fintech Revolution” in India which is a fusion of Finance and Technology. Robo-advisory is a system of financial planning through Artificial Intelligence which offers a variety of digital financial solutions that are based on pre- programmed, pre-designed and pre-structured algorithms or mathematical rules.

2. Research Methodology and design:

2.1 Exploratory study with Secondary Data: Information has been collected from Government bulletins, reports, online newspapers and websites.

2.2 Major Variables of the study : Robo-Advisory, Traditional Financial Advisory, SEBI, High Net-Worth Individuals, Technology, Algorithm, Working, benefits and limitations of Robo-advisory.

3. Research Analysis and Findings:

3.1 How Robo-advisory works:

Robo-advisors are highly skilled and technical platforms which use a pre-defined and structured algorithm and analytics which take investor information as inputs and generate output in the form of specific financial plan with asset allocation based on certain criteria and parameters. These scientific algorithms use agile, customer-experience led mechanical and iterative approach and have various combinations and permutations which are designed and back tested in varying market conditions and cycles. Customers can get the right advice for their situation through well-designed and programmed robo-advisory services thereby minimising their risk of investing in the wrong instrument. The investor has to open an on-line account and fill up a questionnaire giving information about his age, risk profile, period of investment and amount to be invested. An algorithm does all the analysis, asset allocation, recommends a series of choice, moves, and strategies that are perfect for each investor and then determines the optimal portfolio to suit the investor’s financial needs, his short term and long term objectives. Suppose an investor wants to invest in mutual funds or start systematic investment plans (SIP) in mutual funds. The robo-advisors may advise him accordingly based on algorithms specifically designed to meet investment requirements. Hence, different robo-advisors may recommend different investment instruments for similar goals based on their own algorithm. Again, an investor is not required to follow the advice give by these Robo-advisories only. On the contrary, robo-advisor gives investor an option to choose an aggressive or a passive portfolio which the investor is comfortable with. The investor can view, track, monitor and modify his investments and portfolio as and when required. An investor can have a premium account as well as have an access to a financial advisor. It is not an either/or situation. There are human beings operating the technology-based system in the background. At some point, the investor starts getting help from real people. Thus, the Robo-advisory provides investment and tax saving advice, manages and rebalances investment portfolio and generates best return plans for investors as per their age, financial goals, time horizon, investible surplus and risk appetite. Very stringent controls and systems are in operation to ensure that any advice given by the software is in best interest of the client. The portfolio may be continually rebalanced algorithmically or remain untouched to get desired return.

3.2 Scenario in India:

Robo-advisory firms are covered by SEBI (Investment Advisors) Regulations, 2013. In October 2016, SEBI came out with a consultation paper with regards to compliance requirements for the same. It noted that the risk profiling of the investor is mandatory and all investments on which investment advice is provided shall be appropriate to the risk profile of the client. According to Statista, currently assets under management (AUM) within the robo-advisors segment in India amounts to US$ 42 million (as of 2019). Further, the AUM are expected to show a compound annual growth rate (CAGR 2019-2023) of 36.2 per cent resulting in total amount of US$ 145 million by 2023. As compared to robo-advisors globally, where companies like Wealthfront, Betterment, Nutmeg and Vanguard have already crossed over US$30-40 billion of AUM, we are still at a nascent stage. The following are a few robo-financial advisors in India that provide customized financial planning and investment services to their clients.

- *Fundsindia*
- *Scripbox*
- *Arthayantra*
- *Invezta*
- *Goalwise*
- *Advisesure*
- *Wixifi*
- *Wealthpedia*
- *Bharosaclub*
- *RoboAdviso*

3.3. Benefits of Robo-Advisory services:

- This platform is suitable to new-age investors who are comfortable with technology-based financial solutions for all their financial needs.
- These are online and transparent portals with 24/7 accessibility. The client is not required to take prior appointment of the financial planner or wait for him. At the same time, due to the transparent nature of the platform and digital interface, it becomes easy for the investor to analyse the returns on their investments against the benchmark and to determine progress of his investment towards achievement of financial goal.
- These online platforms are easy to operate and are user friendly.
- It is suitable to such investors who want a simple user interface, online convenience, transparency and integrity of the platform.
- It is suitable for retail investors who have a simple portfolio and do not have any experience in financial Investment.
- The fees are lower as compared to traditional financial advisors and planners. Experienced financial advisors charge exorbitantly in the form of upfront fees for personalized advice or as a percentage based on the corpus of assets or as a monthly remuneration for maintaining the portfolio. Most of the robo-advisories and Fin-tech start-ups offer free services to the clients and charge commission from mutual fund houses and distributors.
- It has menu-based multiple investment options with minimal human interface and intervention and is strictly rule-based resulting into more sound decision - making.
- It helps in removing human error and human biases thereby making the model more objective. Everything is controlled via an algorithm. The algorithm is developed purely on logical principles, is characterised by impartiality and is devoid of any emotional element.

- This technology can have access to a much wider market especially to those middle class or working class investors who were until now not able to afford an expensive wealth advisor.
- Most of the investment advisors do not take financial decisions in the interest of the investors because of incompetence or lack of ethics. In a robo-advisory platform, the possibility to do such financial damage is minimised.
- It requires no or low minimum investment. So, it can be helpful to first time investors and small investors or young working class who wish to invest small amounts initially as against the services of a professional financial planner that could be enjoyed only by high net worth individuals.

3.4. Limitations of Robo-advisory:

Due to the advent and growth of robo-advisors, it may be believed that now professional financial advisors and planners may not be required in the financial market. This is not true. Robo-advisors face some constraints and there are many aspects of financial planning which requires human interaction.

- Robo-advisory firms may not be suited or effective for advanced services like tax and estate planning, real estate investment plans or multiple stage retirement planning.
- Robo-advisory is in the nature of do-it-yourself as far as investors are concerned. Because of this, investors may become panicky when markets become bearish or volatile or may be induced to book profits at short intervals which can ruin the prospects of achieving better returns on their investment.
- Robo-advisors might be very ineffective in areas of behavioural finance of investing which deals with investor psychology during unforeseen crisis or extraordinary situations like the Great Financial crisis of 2008.
- Simply numerical inputs in the system are not sufficient to satisfy client needs. This is where human advisors come into picture who can understand the client's frame of mind in times of complicated market conditions and pacify them and ensure that they take the right decisions after consulting them.
- While even very well-programmed and well designed robo-advisors face difficulties in accurately forecasting changes in the national as well as international economy, cognitive abilities of a human being, his farsightedness and years of experience will be helpful in preparing a good financial plan for the investors.
- Software and automated plans are totally dependent on technology. Any technological breakdown or any sort of virus attack may adversely affect the formulation and execution of financial plan.
- Cyber frauds are increasing and many people are apprehensive about the security element of the system, about sharing their confidential information related to money and accounts and its probable misuse by miscreant.
- These systems will generate results based on numerical inputs given by the investor. While the investor sets his financial goals and edits them, the result is bound to change. Hence, there will be times when some people would prefer discussing their fears and hopes with a real person and not with a computer.

4. Conclusion:

Traditional brokerage businesses have specific insights, have a number of investment instruments and offer customised advice. They are better equipped to provide personal attention along with advisory and consultancy services. These reasons appeal institutional investors and HNIs to use services of traditional brokerage houses. Digitalisation does not act as a substitute to personal relationship, but complements it by using customer data to accurately prepare a financial plan to meet the investor's need and objectives. Established financial advisors are offering a hybrid model to their clients that merge the insights, experience and personalised service of the traditional financial planners with the dexterity, user-friendliness, miniscule-fee, pure-logic trading concept, fully-automated and progressive technology of the robo-advisors. A client can opt for passive asset allocation program or active asset management styles. According to a report titled Top of the Pyramid, published by Kotak Wealth Management in 2017, Indian ultra high net worth individuals (UHNIs) still prefer traditional financial advisory services, which allow them to interact with their wealth managers. Also, as per the report, 34% UHNIs said that they were aware of robo advisory services, most of them had not actually availed these services. Findings also showed that 25% of the UHNIs who had enjoyed the services of robo-advisors, said they did so as it was 'time- saving'. There is a segment of financial advisors who think that they will lose business with the advent and growth of robo-advisors which are nothing more than a computer algorithm. There is also a class of investors who believe that financial advice should not be costly and that the investment industry should be more accessible to even the middle class or working class investors. There are some HNIs believe that if the investors have more assets and wealth, there is higher possibility of them engaging the services of a financial advisor rather than trusting a computer with their fortune. Robo-advisors will certainly grab a share of business of traditional investment and advisory firms, but at the same time there will be investors who will always prefer to speak to a real person, not with a computer program.

5. Recommendations:

Automation or no automation, there are definite segments of the society who still prefer a human advisory model and work the traditional way. Adapting to such a technology would take some time to mature. Along with robo-advisory services, wealth management and financial advisory companies should also provide the investors with a human touch of a wealth manager. Gradually, based on the trust, confidence and comfort level of the investors towards this new technology, the companies can start providing automated suggestions along with capability of human advisory support. Compared to other developed countries, the robo-advisory market in India is still in its nascent stage. However, it has got growth potential and the robo-advisory market in India will flourish in future.

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