

Robo Advisors: A disruption in Indian Wealth Management?

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Robo Advisors have taken the Global Wealth Management market by storm in the past decade. Driven by technology, they are easy to use, highly personalized and unlike the traditional wealth advisors, they are affordable by the masses. In the US alone, Robo Advisors amount to over \$749 Billion AuM, \$59 Billion AuM in Europe and \$190 Billion AuM in Asia.

Robo Advisors are estimated to manage roughly \$2.2 Trillion of the world's wealth by 2022!

So, what exactly are Robo Advisors?

Simply put, they are algorithm-driven (may or may not be intelligent) application that recommends a personalized investment portfolio based on the input from the user.

A typical Robo-Advisor collects information from clients through an online survey and then uses the data to offer advice and/or automatically invest client assets. An investment cycle for a new user starts with filling an online survey -> creating a trading account -> choosing the portfolio based on Robo recommendation -> Finally, tracking the performance of the portfolio.

Figure: Robo Advisor by Edelweiss

The complexity of Robo advisors can vary from a simple algorithm recommending an investment portfolio using very few data points (like the edelweiss Robo as shown in the figure above) to a sophisticated, AI-driven application using several data points including social media data recommending a highly personalized portfolio for the investor.

Users and financial corporations have quickly adopted to Robo Advisors driven mainly by the advantages over traditional Wealth Advisors-

1. Users love Robos-

- Personalized
- Completely digital
- Affordable
- No minimum balance
- Complete control over the portfolio and choice of investments

2. Companies love Robos-

- Low cost of operations
- Easy to scale
- Minimal errors and frauds
- A new source of revenue
- Easily fits into any operating model

Robo advisors became increasingly popular after the 2008 global financial crisis when tighter regulation led to the rise of technology-driven financial startups. Although Robo Advisors originated in the form of fintech startups, they have gained popularity in recent years, particularly with large global financial institutions like Charles Schwab, Black Rock, Wells Fargo and Bank of America bringing their own Robo Advisory services to the market.

The market now is driven by the innovation of the startups but dominated by big players. Let's look at the top 3 Robo Advisors of the world-

#1 Vanguard Personal Advisor Services- Vanguard operates the largest Robo Advisor in the world, in terms of Asset under Management, over \$140 Billion!

While much of the service is completed automated, it still has an element of people advisor. For a minimum account balance of \$50,000 and an additional fee of 0.30 percent, investors get the automation of Robo-Advisors plus a human advisor to contact with questions above and beyond the capacity of a non-human “advisor.”

It is one of the cheapest hybrid services available in the market.

#2 Schwab Intelligent Portfolios: It is one of the best known Robo Advisors in the world with over \$41 Billion Asset under Management.

Like most of the Robo Advisors, Schwab has three key features:

- The first is initiated by the client investor’s completion of a questionnaire that assesses the investor’s risk tolerance and their investment time horizon. Questionnaires like the one shown in the figure above.
- Construction of a portfolio of ETFs by Schwab
- Daily monitoring and rebalancing when necessary

There is a \$5,000 initial investment minimum and \$0 fees.

#3 Betterment — It is a pioneer in the industry and the third-largest Robo Advisor with over \$20 Billion AuM. WealthFront and TD Ameritrade Essential & Selective Portfolios are the other two players with AuM around \$20 Billion.

Betterment offers a service that can be considered a blend of Vanguard and Schwab. Betterment charges 0.25 percent but has no minimum initial investment amount.

If users prefer access to a human advisor in addition to the automated service, they can do that with Betterment Plus and Betterment Premium.

The Plus service charges 0.40 percent per year and investors get unlimited emails and one personal call per year. For 0.50 percent, investors can get the Premium service for unlimited emails and unlimited calls per year.

What’s happening in India?

Although India is one of the slow adopters of Robo Advisors, it is picking up with over 40 players already in the market managing around Rs. 300 crores (~\$40 million) in assets.

Many companies in India have adopted different models targeting different segments of the users-

1. Self- selected baskets — These are the simplest investment platforms that offer a specific set of “Packages”. One of the popular players in this segment is Scripbox, it targets the first-time investors with three boxes of funds — equity, fixed income, and tax saving.

2. Goal-based Advisors — These online platforms offer advice based on the user’s goals

Goalwise is a popular goal-based Robo Advisor which takes input like goals, risk level and the period to reach the goal. Based on the inputs, it would suggest the target SIP amount and instruments a user could invest in. An important feature of a goal-based platform is the asset re-balance to offset the risk closer to the goal.

3. Full-Service Robo-Advisors — These platforms take in detailed questionnaires to assess risk appetite, financial goals, savings and spending patterns to suggest a very personalized portfolio. Wixifi, ArthaYantra, and Aditya Birla MyUniverse are some of the popular platforms in this segment.

Wixifi offers recommendation + execution service for both Mutual Funds and common stocks. They provide research tools and research data on over 3,000 mutual funds and 12,000 mutual fund share classes.

Figure: Screenshot of Coin by Zerodha

Online Mutual Funds marketplace is rapidly gaining momentum with the entry of big fintech players like Paytm introducing Paytm Money- an online platform to buy/sell Mutual funds and Zerodha introducing Coin- a platform to buy commission-free direct mutual funds. Groww is another popular platform that allows users to buy mutual funds and ETFs online. Each of the 3 platforms has over 1 million users and the next logical step in their product roadmap would be to introduce Robo Advisors suggesting their users where to invest.

The growth for Robo Advisors in India will be fueled by a lot of money being pumped in by these companies and factors like the growing internet and smartphone penetration, growing middle class (~70m household with income over 5LPA), favorable demographics (65% of India's population below the age of 35) and deep-pocketed payments companies changing the consumer behavior.

Although the market is relatively small, given its massive growth potential and favorable external factors, Robo Advisors in India will definitely thrive in times to come.

Disclaimer: This is a personal post, does not represent views of the company I work for.

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