

**JYOTI NIVAS COLLEGE
AUTONOMOUS
POST GRADUATION CENTRE**



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BY
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ON
"ROBO-ADVISORS: NAVIGATING THE
FUTURE OF FINANCE"**

INTRODUCTION

In the ever-evolving landscape of finance, technology continues to reshape the way to manage money and invest for the future. One of the most notable innovations in recent years is the rise of robo-advisors. These automated investment platforms have gained momentum, offering a compelling blend of convenience, accessibility, and cost-effectiveness.



Robo-advisors are designed to understand investor needs, propose the investment and allocation strategy, implement the selected allocations, monitor results, and perform the portfolio rebalancing as per the strategy. Robo-advisors offer easy account setup, robust goal planning, account services, portfolio management, security features, enhanced customer service, and comprehensive education. In addition, services such as tax-loss harvesting and retirement planning, traditionally offered only by large wealth managers, and are often packaged into the robo-advisory offering. Robo-advisors provide efficiencies in addressing a wider range of investors including underpenetrated mass affluent and small investor segments of wealth management, and differentiate through intuitive investing experience with fully digital and online processes

How robo-advisors work

The essential function of a robo-advisor is to advise people about investments and help them develop investment strategies. Robo-advisor platforms require users to provide all the necessary information, specify the financial goals they want to achieve, and indicate their risk tolerance. Once all relevant information (time period, risk tolerance, goals, employment status, age, and other financial details) is entered into the system, the software analyzes these parameters to create a score for each individual, and the score create an appropriate score based on. Manage your

portfolio independently. Robo-advisors typically use investment algorithms powered by artificial intelligence and machine learning to complement the services of traditional financial advisors.



In India, the rise of robo-advisors has been slower than in some other countries, but the trend is picking up steam.

According to a report by the consulting firm KPMG, the robo-advisory market in India is expected to grow at a compound annual growth rate of around 45% between 2020 and 2025.

One reason for the slow uptake of robo-advisors in India is the cultural preference for face-to-face interactions and personal relationships. Many Indian investors still prefer to work with a human financial advisor, rather than an algorithm-driven platform. However, as younger, tech-savvy investors enter the market; this trend will likely change.

Another factor that has slowed the growth of robo-advisors in India is regulatory uncertainty. The Securities and Exchange Board of India (SEBI) has yet to issue clear guidelines on the use of robo-advisors, which has made some investors wary of using these platforms. Despite these challenges, some robo-advisors have already made a mark in the Indian market. One example is Kuvera, a Bangalore-based platform that offers a range of investment products, including mutual funds, stocks, and bonds. Kuvera uses an algorithm to create a customized investment portfolio for each client, based on their financial goals, risk tolerance, and investment horizon.

Another Indian robo-advisor is Goal wise, which offers goal-based investing solutions for its clients. Goal wise creates investment portfolios that are designed to help clients achieve specific financial goals, such as saving for a child's education or retirement.

Robo-advisors are changing the investment management landscape in a big way, offering investors a low-cost, convenient, and transparent way to access professional investment management. While the trend has been slower to take hold in India than in some other countries, the market is expected to grow rapidly in the coming years.

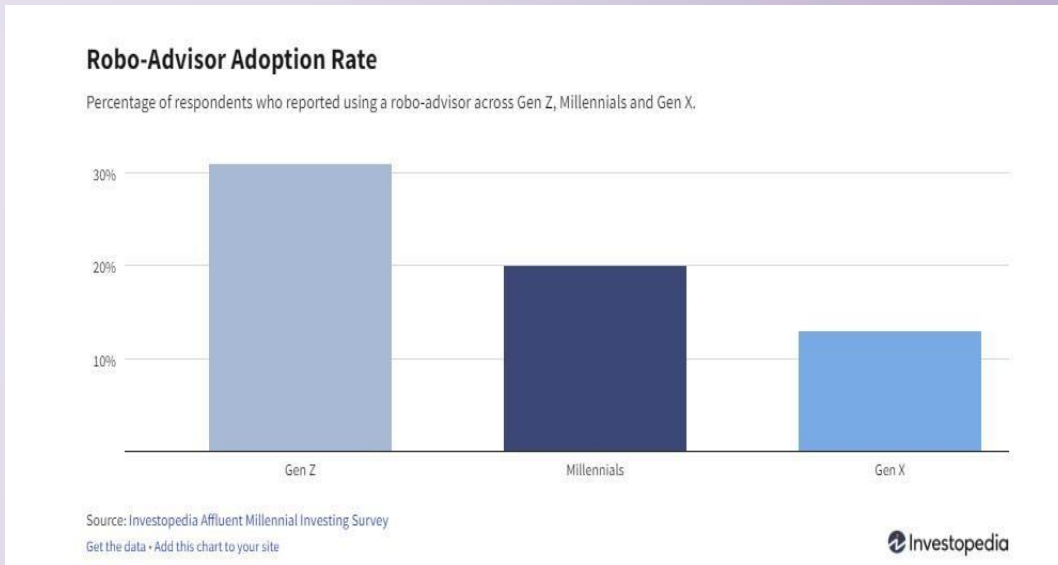
As younger, tech-savvy investors enter the market, and regulators provide clear guidelines on the use of these platforms, robo-advisors are likely to become an increasingly important part of the investment landscape in India and around the world

ROBO-ADVISORS USERS

A survey of 1,405 individuals found that 20% of affluent millennials (ages 23-38) use robo-advisors, compared to only 13% of Gen X respondents. Looking at a younger segment of the population, 31% of those age 18-22 use robo-advisors compared with only 9% of investors aged 47-54, suggesting acceptance of digital advisors is increasing with each generation.

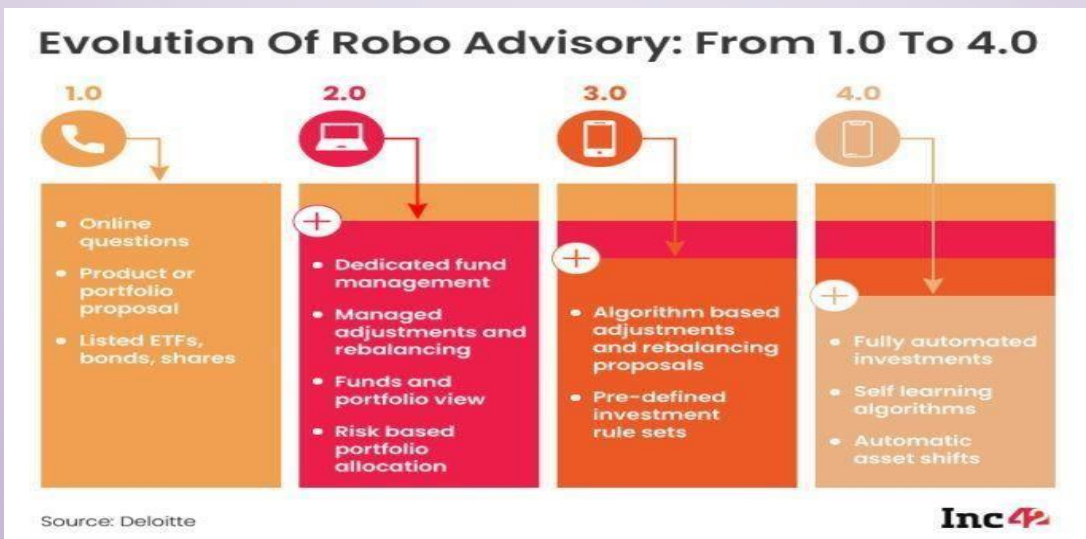
Respondents who indicate using robo-advisors are twice as inclined to actively oversee their finances on a daily basis. This discovery implies that digital platforms tend to appeal to more involved investors who have a desire to actively manage their money or, at the very least, consistently keep tabs on it.

Further, robo-advisor adoption is more prevalent among men: 27% of male respondents use them, versus 16% of women. However, the gender gap narrows among Gen Z respondents, with 35% of men using robo-advisors compared to 27% of women.



FUTURE OF ROBO ADVISORS IN INDIA

Robo advisory in India is currently at the 3.0 phase and is expected to move towards phase 4.0, similar to developed markets like the US, the UK and others countries using advanced technology.



The emergence of fully automated robo advisors will further reduce existing costs and rationalize the fee structure in this segment based on three saving potentials — personnel costs, operating expenses and capital expenditure due to complete digitalization of financial advisory services. Based on current trends, experts believe that the country will soon witness the emergence of a hybrid robo advisory model that will combine the best of digital and traditional services. The first robo-advisory firm in India, Wealth front, was launched in 2016. Since then, a number of other robo-advisors have emerged, including Fisdom, Scripbox, Kuvera, and ET Money.

The age groups that use robo-advisors in India vary widely. However, the most common users are young adults and millennial. This is likely due to the fact that robo-advisors offer a convenient and affordable way to invest, and they are well-suited for investors who are new to investing or who do not have a lot of time to manage their own portfolios.

Top Robo-Advisor companies in India

- Angel Broking ARQ,
- 5Paisa Auto Investor,
- Scripbox,
- Sharekhan NEO,
- ET Money.

REASONS WHY PEOPLE CHOOSE TO USE ROBO-ADVISORS IN INDIA

- **Convenience:** Robo-advisors are easy to use and can be accessed from anywhere with an internet connection.
- **Affordability:** Robo-advisors typically charge lower fees than traditional financial advisors.
- **Personalization:** Robo-advisors can create personalized investment portfolios based on each investor's individual risk tolerance and investment goals.
- **Hands-off approach:** Robo-advisors automatically manage investment portfolios, so investors do not need to worry about making their own investment decisions.

Overall, robo-advisors are popular for investors in India because they offer a convenient, affordable, and personalized way to invest.

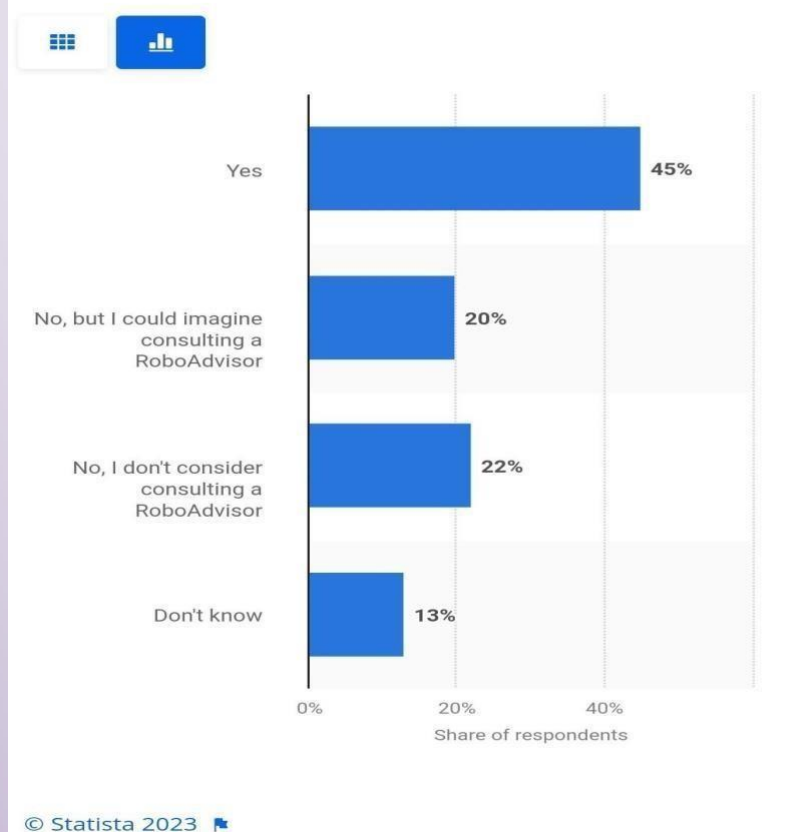
Robo-advisors are automated investment management services that have become increasingly popular in India in recent years. They are particularly popular with young investors who are looking for low-cost and convenient investment options.

Robo-advisors can be a good option for investors who are looking for a low-cost and convenient way to invest their money. However, it is important to note that robo-advisors are not a replacement

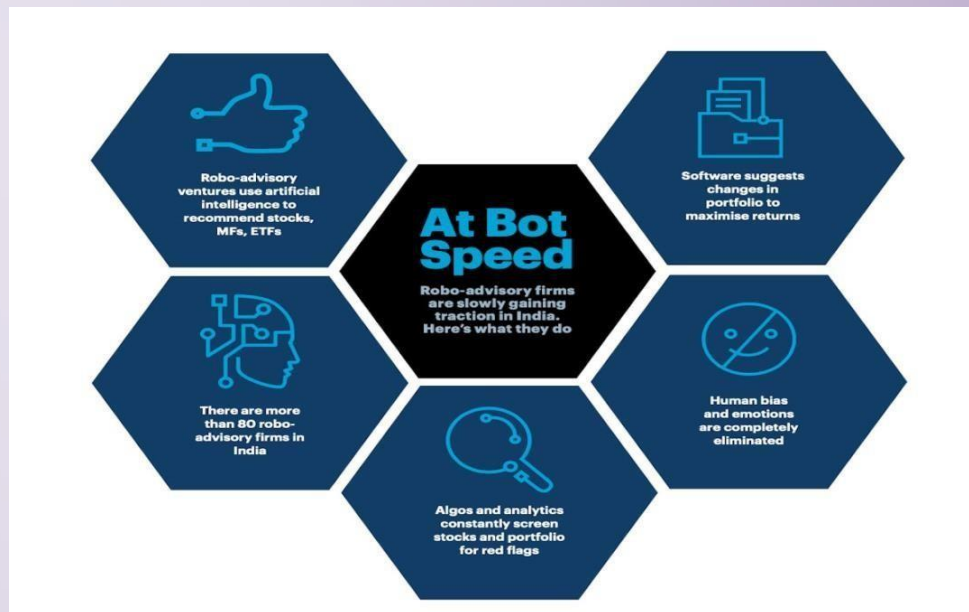
for human financial advisors. Investors should carefully consider their individual needs and risk tolerance before choosing a robo-advisor

Robo advisors in India have been popular for the last 1 to 2 years and for 3 to 4 years in developed markets. Few securities that are available for investment through robo advisory firms are stocks, bonds, mutual funds, ETFs(exchange-traded funds), index funds, real estate, or other alternative or direct investment products.

RoboAdvisor usage (prospective) in India as of June 2023



IMPACT ON INDIAN STOCK MARKET



The growing clout of robo-advisory businesses in India can be gauged from the fact that a recent report by German market data intelligence firm Statista stated that the total assets under management (AUM) of such entities in the country would touch \$13 billion in the current year. More importantly, it stated that the assets are expected to grow at a CAGR of nearly 43 per cent between 2021 and 2025 with the AUM likely to touch nearly \$54 billion by 2025. The number of Indians who use robo-advisory services is also expected to touch nearly 330 million by 2025. Just to put things in context, the AUM of robo-advisory firms in the US is currently pegged at \$1 trillion, as per the report by Statista

Automated investment systems known as "Robo advisers" provide algorithm-based solutions and they have been around for a while and have grown into a sizable industry on a global scale. However, it is also expanding swiftly in India due to the country's growing financial consciousness. Also, the value that private banks and wealth managers offer must be better expressed, and their fees must be more convincingly supported, in order to properly respond.

There are already 85 robo-advisory firms in India, with Mumbai and Bengaluru having the most, with 27 and 23, respectively, according to data from Tracxn, a start-up data analytics company.

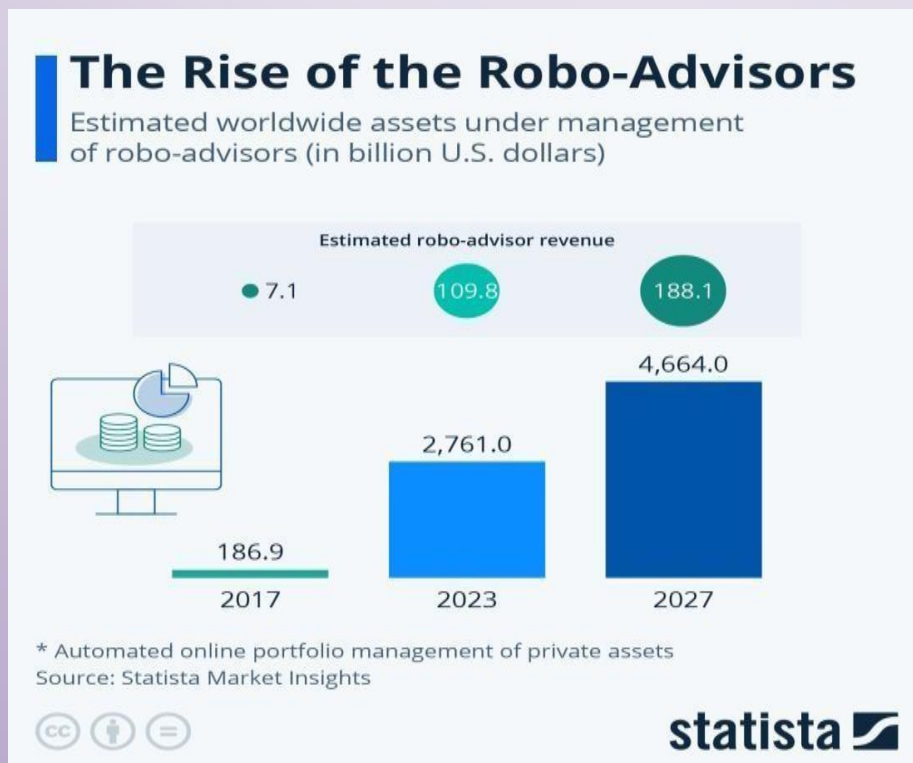
In India, the robo-advising industry is still in its infancy, with only a few businesses active. In this country, robo-advisors come in three distinct categories: fund-based, equity-based, and fully integrated wealth advisories. India's completely automated investment platforms are preparing it for the robo advisory 4.0 phase.

In years to come, the Indian stock market will likely continue to be greatly affected by the growth of robo-advisors. Here are some concrete ways that robo-advisors are anticipated to influence Indian finance in the future:

- **Participation will increase:** As robo-advisors make it simpler and more economical for people to make stock market investments. This is probably going to cause the number of retail investors in India to rise significantly.
- **More Efficient Markets:** Robo-advisors are able to trade stocks more effectively than human traders in markets with higher levels of efficiency. This is due to their rapid trade execution and ability to analyze massive amounts of data.
- **More openness:** Robo-advisors ought to be open and honest about their costs and investment recommendations. This will probably result in more transparency.

Overall, robo-advisors have the potential to have a positive impact on the Indian stock market. By making investing more accessible, affordable, transparent, and efficient, robo-advisors can help to boost market participation and liquidity, improve investor protection, and reduce risk

THE GROWTH OF THE ROBO-ADVISOR MARKET IN INDIA IS BEING DRIVEN BY A NUMBER OF FACTORS, INCLUDING



- Increasing demand for low-cost investment management solutions
- Rising popularity of passive investing
- Continued development of artificial intelligence and machine learning technologies
- Growing internet and Smartphone penetration
- Young and tech-savvy population

CHALLENGES IN IMPLEMENTING ROBO ADVISOR IN INDIA



Robo advisory firms are classified as ‘investment advisors’ by the SEBI and have to comply with the stated norms. And some of these norms aren’t exactly very convenient.

- 1. Inconvenience in making payments:** SEBI requires payment of fees to investment advisors in modes other than cash deposits and payment gateways for the purpose of audit trails. However, this doesn’t make much sense. Payment gateways, wallets, and debit/credit cards have as good an audit trail as possible. Besides, these are more convenient in comparison to other modes of payment. This rule is a roadblock for many clients willing to take investment advisory services.
- 2. Not much incentive:** Robo advisors have the option to either follow a fixed-fee model (not more than Rs 1.25 lakh p.a.) or an asset-linked model (capped at 2.5% of assets under advice p.a.). Firstly, a flexible structure

allowing a combination of both models would have been a logical arrangement. Besides, the maximum fees allowed is not enticing enough for an advisor to keep generating outstanding returns year after year. Most probably, these caps were introduced to keep robo advisory at par with the mutual funds industry. However, the disparity in both these industries in terms of size, coverage of service, penetration, AUM, and number of players should have been considered.

3. Inappropriate cancellation policy: Regulations also restrict collection of fees in advance for not more than six months, and in case of cancellation, forfeiture of fees not exceeding a quarter. However, this structure doesn't go well with advisory service. The reason being that once the advisor delivers an initial action plan to the client, that's good enough to get going for a year or so, unless there is a change in the financial profile that requires a rebalance. Once such a plan has been delivered and investment recommendations given, there is always this risk that the client may not continue after the six months he paid for or may cancel the service agreement to lose only a quarter's fees. But in such a case, the advisor loses one year of service with just a quarter's compensation. This makes advisors hesitant to provide discreet advice for the long term.

4. Regulatory uncertainty: These are a few of the regulatory issues troubling investment advisors. Besides this, there have been frequent regulatory changes in the past, which has created a fear of uncertainty among advisors, discouraging investments in the field. The regulator has also become strict in terms of qualifications and net worth requirements for becoming an investment advisor. It's understandable that all of these norms are for the benefit of retail investors; but considering a meager advisors-to-investors ratio, the regulator could as well come up with some common grounds for mutual benefit.

Technical Challenges of Robo-Advisors:

Robo-advisors have become an increasingly popular tool in the financial industry, providing automated investment advice and portfolio management services to customers. These digital platforms are designed to help investors make smarter investment decisions and manage their portfolios more effectively. However, as with any technology-driven solution, there are technical challenges that must be addressed to ensure that robo-advisors deliver accurate and reliable results.

One of the most critical challenges facing robo-advisors is algorithmic accuracy. Robo-advisors rely on complex algorithms to analyze vast amounts of data and provide investment recommendations that align with investors' goals and risk tolerance. Ensuring the accuracy of these algorithms is essential to the success of the robo-advisor platform

There are several technical challenges facing algorithmic accuracy in robo-advisors. One of the biggest challenges is

1. Data quality: The algorithms used by robo-advisors rely on high-quality data to provide accurate investment recommendations. However, data quality issues can arise due to incomplete or inaccurate data, resulting in incorrect investment recommendations.
2. The complexity of the algorithms: The algorithms used by robo-advisors are complex and require a deep understanding of mathematical and statistical concepts. Any errors in these algorithms can result in incorrect investment recommendations, leading to financial losses for investors.
3. Ensuring Algorithmic Accuracy: To ensure algorithmic accuracy, robo-advisor platforms need to implement a range of technical measures.
4. Data cleaning and preprocessing: One of the most important measures is data cleaning and preprocessing. This involves identifying and correcting errors in the data, ensuring that it is accurate and complete.
 - Algorithm validation and testing: One of the most important measures is data cleaning and preprocessing. This involves identifying and correcting errors in the data, ensuring that it is accurate and complete.
 - Implement explain ability and transparency measures:
 - These measures ensure that the algorithms used by robo-advisors are transparent and explainable.

CONCLUSION

Robo-advisors are automated investment management services that are becoming increasingly popular in India. Offer a convenient, affordable, and personalized way to invest, and they are particularly popular with young investors. Robo-advisors are expected to play a major role in the future of financial services in India. As the country's middle class continues to grow and more people become financially literate, there will be a growing demand for low-cost and accessible investment solutions. Robo-advisors are well-positioned to meet this demand.

Robo-advisors are also likely to have a significant impact on the Indian stock market. As more people invest through robo-advisors, the market will become more liquid and efficient. Robo-advisors will also help to democratize the stock market, making it more accessible to people of all income levels.

Here are some specific ways that robo-advisors are changing the investment management landscape in India:

1. Making investing more accessible: Robo-advisors have a low minimum investment requirement, making investing accessible to people of all income levels. And also easy to use and can be accessed from anywhere with an internet connection.
2. Reducing the cost of investing: Robo-advisors typically charge lower fees than traditional financial advisors. This makes investing more affordable for everyone, but it is especially beneficial for small investors.
3. Personalizing the investment experience: Robo-advisors can create personalized investment portfolios based on each investor's individual risk tolerance and investment goals. This helps investors to achieve their financial goals in a more efficient and effective way.
4. Automating the investment process: Robo-advisors automatically manage investment portfolios, so investors do not need to worry about making their own investment decisions.

This is ideal for investors who do not have the time or expertise to manage their own portfolios.

Overall, robo-advisors are a positive development for the Indian investment management landscape. Robo advisors are making investing more accessible, affordable, and personalized. And also automating the investment process, which is ideal for investors who do not have the time or expertise to manage their own portfolios.

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