Robo-advisors in a nutshell

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EXPERT ARTICLE
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Robo-advisors have hitherto been primarily associated with banks' investment business and asset management. They provide a rules-based, automated portfolio management system and offer customers digital advice. But how much sorcery is actually involved here? And are there more use cases to be discovered? Or even opportunities for other sectors?

To remain successful, firms must be able to move more quickly and more intelligently than the competition. Robo-advisors are becoming increasingly popular tools in this race to stay ahead of the curve and they have managed to carve out a niche for themselves mainly in the financial sector. However, the average person in Switzerland is still cagey about using such digital asset management solutions to invest their hard-earned cash. Despite the general public's reservations, an array of robo-advisory services have begun hitting the market. In technological terms, these services involve rules-based automation that enable companies to combine human expertise and machine learning in such a way that corporate processes are carried out significantly faster, are less prone to error, and are completely automatic. This development is not about replacing humans, but about liberating them from repetitive routine tasks. It simultaneously creates new roles and allows staff creativity to be harnessed to manage and further refine the automation process. The aim is to continuously add value for the customer – as quickly as possible. In order to do this, human resources need to be able to focus their ingenuity on concrete problems.

Scaleable services – thanks to automation

Today, many robo-advisors in the financial sector are being used to recommend investment strategies. Customers can manage their assets online; transparently, cost-effectively, in real time, with individual risk appetite, implementations within a given investment style (e.g. a sustainability-based approach) and broad diversification presenting just part of the equation. A selected strategy will then be implemented at regular intervals via a fully automated "rebalancing" process whereby assets are reallocated within a portfolio according to fixed rules. This is a classic routine task that a machine can perform orders of magnitude faster than a human, with an error rate that is close to zero. So, not a hint of artificial intelligence or robots at work – all in all, there's no magic involved. But it is precisely here that significant potential is to be found. Thanks to such technology, barriers to entry can be lowered and asset management services can be made available to a far wider range of potential customers than in the past.

What options were available to customers before the advent of such digital advisory services? There were essentially three choices: doing nothing, doing it yourself or having a flesh-and-blood asset manager do it. If doing nothing was not a viable option, it was a case of handling it yourself, which took up lots of time and could result in investment errors. And of course expert advice is never truly independent, incurs considerable costs and often requires a minimum investment. In short, these kinds of advisory services have traditionally been a luxury available to only a small segment of the population.

It is precisely these services that have been automated by the robo-advisor, making them easily accessible and, thus, suitable for mass use. A robo-advisor can work extremely efficiently given a set of rules-based investment algorithms, instantly eliminating the need for costly physical branches and/or consultations with human asset managers. There are other upsides for the bank as well: while a single human asset manager can manage no more than around 100–150 high-net-worth clients, there is virtually no limit to the number of clients a highly automated system can handle. Average service quality is boosted through automation and by trimming the interface to the customer back to top-quality advice via livechat or telephone. The upshot is substantially lower costs for a superior service, with almost infinite scope for acquiring new customers.

"The balance between digital and personal advice creates a unique customer experience."

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Digital advice establishes trust
Automating a service can optimise processes and reduce costs while potentially opening up new economic sectors. Let's take an example from the insurance industry. Calculating your own insurance requirements objectively takes time and many customers find it difficult – especially in Switzerland, a Mecca for insurance companies. The Swiss are often regarded as over-insured, frequently taking out cover they don't actually need. Even once requirements have been established, it takes time to source a portfolio of insurance policies that perfectly suits your needs while also having no overlaps. Once a policy has been signed, cancelling it is anything but a walk

in the park, for a host of reasons, not least: dealing with one's current insurance requirements is a laborious task for most of us and conditions for terminating contracts are generally extremely inflexible. A system that regularly and automatically adapts insurance cover to changing requirements would provide genuine relief for end users.

Digital all-in-one insurance solutions deploying rudimentary artificial intelligence to calculate individual insurance requirements are already being used. An insurance portfolio is assembled from the results and a policy can be taken out at the press of a button. It would be exciting to take this one step further, though.

Imagine a system that could intelligently identify changes in an individual's insurance requirements and automatically make suggestions to adapt their cover. If the user regularly took car trips abroad, for example, the system could recommend additional, or even temporary, insurance protection. By the same token, the system could advise the customer to terminate a comprehensive policy once their car passes a certain age or if it is used too infrequently. Such a system would enable every customer to benefit from a tailor-made product at all times and yet the product would itself be based on an underlying set of standardised products. In this brave new world, customers

should no longer have to worry about a thing; the system would permanently, and objectively, be "on the case", with none of the personal incentives that an insurance salesman might have, for example. This would not only ensure scaleability, it would reinforce the end customer's trust in the service provider. Success certainly awaits anyone who manages to come up with a product that is optimised for individual requirements, available round the clock, and works quickly and more intelligently than that of the competition. This, combined with top-quality support via livechat or telephone, would offer a genuinely sales-orientated customer experience.

From digital advisor to digital assistant

Theoretically, a digital advisor can be employed in lots of contexts. For example, in answering mundane questions like: "What should be on the menu this week? What did we eat last week? What days will our daughter, who is vegan and has a gluten allergy, be home?" A digital advisor could help make these decisions by recalling what was on the menu over the previous seven days, remembering which food preferences and allergies each member of the family might have and consulting the daughter's schedule in the planner, etc. The more information that can be incorporated, the greater the

system's added value. If budgeting is an important consideration, for example, the system might factor in every grocer's latest special offers and compile a shopping list for these various shops or even place an automatic order straight away. Payment would of course be made with whichever method was most cost-effective and netted the most cashback points.

Combining digital advisors from a wide variety of sectors will increase the potential quality of services still further. The logical outcome would be a digital assistant that will automatically make suggestions and ultimately even take certain decisions off its own bat.

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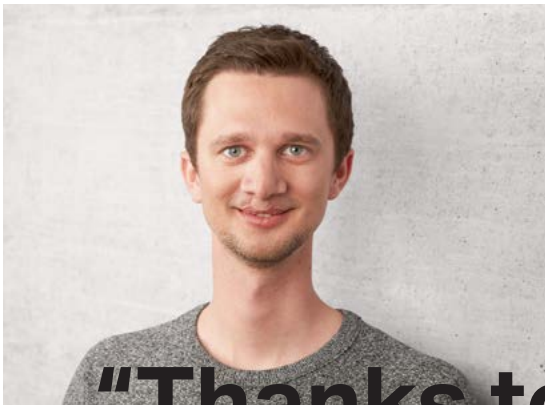
"**Thanks to intelligent process automation, a product can be offered more cost-effectively – with no loss of margin.**"

Striking a balance

Automation of services and the associated scaleability will create opportunities for companies to increase their margin, while simultaneously improving quality by standardising across the board and shrinking staff costs. This will translate into more efficient and cost-effective services for customers as well as greater margins for firms. The result will be a price war. Those who stand still will run the risk of losing market share and client trust. While there is bound to be a counter-trend at some point, until the right balance between digital and personal advice is established, as the evolution of digital advisors and assistants has shown, the trend towards an ever-more digital future is now indisputable. For companies, the key to success lies in consciously choosing a strategy and implementing it consistently. Sooner or later, those who sit on their hands will no longer be able to compete. />