The Finnish perspective on robo-advisory
How much influence on wealth management will it have?
The challenge that wealth managers face today is how to provide a unique service to mass affluent customers profitably.

Robo-advisory might be the answer.
Contents

Introduction 5
What is robo-advisory 6
Robo-advisory market overview 10
The wealth management market in Finland 16
The Finnish financial institution perspective 18
Conclusion 24
Introduction

The financial sector is currently in disruption, FinTech is emerging as the next big thing, and the incumbents are to some extent struggling to keep up with the new technologies. These technologies are constantly improving customer experiences and making it easier for the customer to do their everyday banking.

The first robo-advisory firms were established in the United States 10 years ago, so the idea is not very old. What actually is robo-advisory and how can it improve the existing wealth management?

In order to be able to discuss robo-advisory and the improvements it might bring, it must be pointed out that robo-advisory is not an investment vehicle; it is not a complex alternative investment class. Robo-advisory is a new technology that aims to provide cost-effective wealth management.

This paper provides an overview of robo-advisory in Finland. For the paper, we have interviewed top executives as well as sent out a questionnaire to individual wealth managers, covering altogether about 90% of the wealth management market in Finland.

We start by 1) defining robo-advisory and then provide a brief overview of 2) how robo-advisory actually works. Next, 3) a worldwide market overlook of robo-advisory, and then the focus will be shifted toward 4) the Finnish market. Here, we aim to provide an understanding of how Finnish financial institutions and wealth managers think about robo-advisory and to which extent they have thought about implementing robo-advisory in their business, if at all.

Ilkka Huikko
What is robo-advisory?

Finnish financial market operators see robo-advisory as a very broad subject. Every firm has its own definition depending on the robo-advisory opportunities that the company perceives for itself.

The word robo-advisory comprises two separate words, robo and advice. Robo in this sense stands for robotics and advisory stands for the advice given by the wealth management units. When putting these two words together and forming the word robo-advisory, this paper discusses an online portfolio that aims to automatically invest clients’ money in a way that does not require any substantial knowledge of the financial market from the person that invests with a robo-advisor. Robo-advisors aim to provide investment solutions in a new and user friendly interface.

Hybrid or fully automatized?

In the least developed scenario of robo-advisory, the wealth managers still provide the advice and the robots just allocate the clients’ funds according to agreement. This is also referred to as hybrid robo-advice.

The most sophisticated form of robo-advisory stands for an automated process that aims to provide customized wealth management. Simply explained, the automated process is a sum of different mathematical algorithms, which are created to support investment decisions. When the automated process is fully developed and functioning, there is no human influence that implements the decisions made. Fully automatized robo-advisory is wealth management without any human interaction or emotions implementing the decisions by a human counterparty. Financial theory has for a long time suggested that human emotions play a big role in poor investment decisions. Going forward, robo-advisory can be the solution to this problem.

The existing financial institutions and start-ups that use robo-advisory in their daily work usually have a hybrid model in use in order to manage their clients’ money. The differentiating approach between the solutions is related to data integrations, mathematical algorithms, and process automatizations.

A sneak peak at the robo-advisors strategy process

With the help of other Deloitte member firms, we were able to identify over 160 different robo-advisory firms all over the world. Some are still in the very beginning of their life cycle, whereas others have already been operating for a couple of years.

We took a closer look at a few of these in order to build a deeper understanding of how the robo-advisors build their investment strategies for clients. Most of these companies work in the following way:

Firstly, when signing up with a robo-advisor the client gets a questionnaire, where the client fills in details, for example:

1. Age
2. Monthly income
3. Savings objective
4. Level of financial instrument knowledge (ETFs, stocks, bonds, etc.)
5. Risk tolerance, meaning how much would one maximally be “ready to lose” in order to achieve a higher return.
Behavioral finance vs. robo-advisory

A great number of researchers argue that human emotion is highly present when humans make investment decisions. These researchers also argue that many investors allow greed and fear affect their decisions and this leads to the fact that they might react with blind emotion instead of calculated reason. In some cases, emotions could actually explain pricing bubbles and market behavior.

In today’s world, many financial planners and advisors incorporate behavioral finance into their work. They are aware that emotional biases, personality traits, and socioeconomic factors can affect financial and investing decisions. This leads to one important insight - one of the most important tasks of a financial planner is to ensure clients that in time of market turbulence, reason and discipline will succeed over fear and greed.

There are a large number of biases that researchers have discovered over the years, some of them will be addressed here and afterwards we will provide insight into how robo-advicising can actually help investors to avoid these biases.

- **Disposition effect**
  Investors often tend to sell “winners” (stocks that have appreciated in value) too early and tend to hold on to “losers” too long. Financial planners should aim to advise their clients to reduce their losses and let profits grow.

- **Mental accounting**
  This bias makes investors group their assets into different accounts or groups. For example, if an investor has a negative return from a stock, the investor might focus on the positive sides, such as a high dividend yield and therefore places it into a positive mental account.

- **Overconfidence**
  Investors might experience overconfidence resulting in over trading, higher trading expenses and thereby lower returns. Or they might, instead of overconfidence, experience slowness or sluggishness when managing their accounts and, therefore, also experience lower returns.

- **Familiarity bias, risk, and return**
  Investors often favor assets that they know and are familiar with. This can in some cases result in under-diversified portfolios. One striking example of this is the tendency to invest in local securities. Therefore, portfolios might be heavily over-weighted in domestic assets.

- **Anchoring effect**
  Investors often base their judgment on the initial price they paid for an they bought an asset. Therefore, it is often hard for them to modify or change their assessment, for example some investors still anchor in the 2007-2008 financial crises and, therefore, still have a highly risk-averse portfolio. They worry a lot about the stock market and can, in some cases, therefore underweight for example equities.

These are just some examples of how behavioral finance can affect investing. These effects can be seen both in individuals and asset managers because both are humans and, in the end, it is a human that makes the investment decision. However, with robo-advisory, the human element is taken out of the equation. Therefore, most of these biases will not be present when investing with a robo-advisor.
Robo-advice 3.0 is in today's world pretty much the furthest robo-advisors have developed. However, there are a couple of examples that can be categorized as robo-advisors 4.0.

**Categorizing the different forms of robo-advisory**

As stated, there are a lot of different models in the robo-advisory market. In order to make the different categories clearer, this report divides the robo-advisory market into four categories depending on how well developed the capabilities of the robo-advisor is.

The categories start from the simplest one, robo-advice 1.0, and ranges up to robo-advice 4.0. Even if the categories range from 1.0 to 4.0 there is nothing that states that robo-advice 1.0 and robo-advice 4.0 cannot co-exist in different firms at the same time. The categorical number refers to how technical the robo-advisory solution is.

1.0
- Online questionnaires
- Product or portfolio suggestions
- Listed ETFs, bonds and shares

2.0
- Allocations done by a dedicated fund manager
- Fund of fund setup
- Risk-based portfolio setup

3.0
- Algorithm-based portfolio suggestions
- Predefined rules for investments

4.0
- Fully automated investment process
- Self-learning algorithms

**Robo-advice 1.0 (Hybrid robo-advice)**

In its most simple form, robo-advice is software that recommends different products to a customer based on his or her needs and preferences. Often wealth managers profile a new client when on-boarding them, either by having them fill out a form where they state what they are looking to achieve with the money invested or by profiling the clients themselves after an initial meeting. Based on this profile, the software then recommends different products to the client or the wealth manager, who then pitches the ideas further to the client.

After getting the suggestions, the client then has to give the buy order themselves to the asset manager using their own account. If the client then in the future wants to adjust their portfolio, they have to do it by themselves as there is no automated process for this. Products that the client can choose from vary from stocks, bonds, ETFs, and mutual funds to other possible investment vehicles depending on the asset managers' product range and the risk profile of the client.
Robo-advice 2.0 (Hybrid robo-advice)

Robo-advice 2.0 goes one step further in the direction of becoming a fully automated robo-advisor. Robo-advice 2.0 means that the robo-advisor can provide everything a robo-advisor 1.0 can but in addition to this most portfolios are created as fund of funds.

Setting up accounts and order execution is part of the “robo-service”. Nevertheless, the asset allocation is still managed manually and is done either by the client or by a dedicated wealth manager. Questionnaires are used to choose an appropriate risk-strategy for the client, in the same way as for robo-advice 1.0, but the dedicated wealth manager often allocates the clients’ money according to the agreed upon terms. The wealth managers, therefore, for the most part take care of the investment strategies and asset allocation, and, to the client, it seems to be done automatically. In reality, this process is semi-automatic as wealth managers oversee investments and the execution is actually the only part that is automated.

Robo-advice 3.0 (Robo-advice)

When moving on to robo-advice 3.0 we are talking about software that manages the clients’ assets. Both investment decisions and portfolio rebalancing are proposed by the software according to predetermined algorithms and investment strategies. The final investments still need to be approved by a professional wealth manager or the client.

Robo-advice 3.0 is in today’s world pretty much the furthest robo-advisors have developed. However, there are a couple of examples that can be categorized as robo-advice 4.0. These robo-advisors will probably become more and more common as the robo-advisory providers develop their capabilities.

Robo-advice 4.0 (Robo-advice)

Robo-advice 4.0 is today the most sophisticated robo-advisory that exists. These robo-advisors have sophisticated risk management tools built in to their algorithms and clients need to fill out a questionnaire before any investment strategies are determined. The mathematical algorithms can also to some extent be self-learning via artificial intelligence. The robo-advisors automatically shift the asset allocation between different asset classes depending on financial market events. Moreover, the robo-advisor can also adjust a single client’s portfolio depending on the needs and preferences of that client, based on the questionnaire filled out when initially investing with the robo-advisor. The allocation to different asset classes often reflects the clients’ desires regarding liquidity and risk appetite.
Robo-advisory market overview

Before diving into the Finnish market, we give a short overview of the robo-advisory markets of the United States, the United Kingdom, and Germany. These are the countries that have the most sophisticated robo-advisory capabilities in the world today.

Number of robo-advisory firms
Looking at robo-advisory companies’ operating in the world, we identified 165 different robo-advisory firms.
As can be seen in the map on the left, the United States, Germany, and the United Kingdom are leading the way when it comes to robo-advisory. It is, however, apparent that robo-advisory is spreading all over the globe as we find robo-advisory companies also in Australia, India, Israel, Finland, and Canada.

When taking a closer look at the capabilities of these robo-advisors, we clearly see that most robo-advisors have 3.0 capabilities and some even have 4.0 capabilities. However, there are a large number of companies that cannot yet be classified as they have not yet started operations.

**United States**

The first robo-advisory firm was established in the United States in 2008, the year after the financial crisis. This robo-advisor did not aim to provide asset management for private persons, but was used to help financial advisors with their workload.

**Vanguard**, currently the biggest robo-advisory firm in the world, manages approximately $47 billion.\(^1\) Vanguard’s success was a result from having a well-known name and a large customer base before launching their robo-advisory platform.

**Betterment**, the leading “pure” robo-advisory firm in the world today, was established in 2008. Today, Betterment manages assets worth over $5 billion and the second largest “pure” robo-advisory firm, Wealthfront, has about $3 billion in assets under management. The growth of these firms has been outstanding. No new wealth management firm has seen similar growth during such a short period of time. Betterment reached $5 billion in asset under management in July 2016, growing from $3 billion in just eight months. Since the United States is currently the country with the most robo-advisors and has the most assets under management the geography will be examined more in depth next to get a deeper understanding of where robo-advisory is going in the future.
According to Deloitte analysis, the robo-advisory market was approximately $100 billion in the United States at the end of 2016. This figure will grow substantially over the upcoming 10 years, reaching 5-7 trillion in 2025. This 5-7 trillion will represent approximately 10-14% of the whole wealth management market in the United States in 2025. Since the potential growth in this market is clear the following question to ask is who invests with the robo-advisors? E.g. who is robo-advisory core customer?

In order to be able to answer that question there are two aspects that need to be considered:

1. **How wealthy is the person that decides to invest with a robo-advisor?**

2. **How old is the person deciding to invest with the robo-advisor?**

The answer to the first question can be found if dividing the whole wealth management market in the United States into categories: mass market individuals, mass affluent individuals, affluent individuals and high net worth individuals. According to the analysis performed by Deloitte and the Future of wealth in America almost 60% of this 5-7 trillion will come from the mass affluent individuals in 2025. This segment currently mainly invests its money in mutual funds and to some extent uses advice provided by wealth managers. This group focuses on trying to invest in different assets, through mutual funds, and thereby enhancing their personal wealth.

Because this segment’s main goal with investing is to increase the potential growth of their wealth, they will be interested in cheaper options to aggregate wealth. This group can be seen as a potential threat to current wealth managers’ assets under management if the current fee levels are not reduced. The affluent and high net worth individuals capture 30% of the market and the remaining 10% is captured by the mass market individuals.
How old then are the people investing with robo-advisors? As can be seen in the graph on the right the ones using robo-advisors are and will, mainly, be generation X and Millennials. Some baby boomers might try robo-advisory; they represent approximately 25% of the assets under management. These are estimates based on Deloitte analysis.

The key takeaway from this section is, therefore, that the Millennials and Generation X who belong to the mass affluent market will be the ones investing the most with robo-advisors in the upcoming years.

To strengthen the numbers and estimates and to give the reader an understanding of how real this opportunity is, Deloitte made a survey in the United States interviewing more than 2,700 individuals from all four wealth tier categories (mass market individuals, mass affluent individuals, affluent individuals and high net worth individuals). The results of this survey supported the claims mentioned earlier.

The survey concluded that the mass market and the mass affluent market are both ready to communicate with their wealth advisors via a digital platform. The high net worth individuals were the ones that were the least in need of robo-advisors and stated that they need to have the possibility to discuss their wealth management with a financial advisor face to face.
Some of the major banks have started to show interest in the capabilities of the robo-advisory firms.

The United Kingdom

The market in the United Kingdom is very similar to the one in the United States. This is probably why the firms in the United Kingdom have the second most developed robo-advisory capabilities in the world.

In the United Kingdom, firms like Nutmeg and Moneyfarm (both founded in 2011) are currently growing at a steady pace. In an equity financing round at the end of 2016, Nutmeg stated that they had approximately £600 million in assets under management. This amount was invested by approximately 25,000 customers. Moneyfarm, on the other hand, does not disclose their assets under management but reports say they are growing at a high speed. Moneyfarm was the first pure robo-advisor that opened a physical shop in Milan in 2016. This means customers can drop in the shop and talk to financial consultants about their investments.

The United Kingdom Deloitte office conducted a robo-advisory survey and received more than 2,000 answers. Similarly, as the survey made in the United States, the people that answered represented all four wealth tier categories. The answers gave deep insight into what customers actually feel about robo-advisory and provide a framework that had not been observed until now.

The survey identified four key reasons why an investor would invest through an online platform.

1. Lower costs.
2. High convenience since robo-advice is available 24/7.
3. Customers appear to be more willing to disclose details on their finances to a machine compared to a human.
4. Advice is consistent across customers and provides a full audit trail.

In spite of the positive aspects, there are still some doubts about robo-advice. The survey concluded that the biggest issues are:

1. Lack of trust in a digital solution.
2. Respondents argued that it is easier to communicate their needs face-to-face with an advisor compared to a website or algorithm.
3. Many respondents said that they do not need financial advice. This indicates that there could be a lack of education on the subject and that wealth managers actually need to educate the population on how to invest their money.

The most interesting part in the survey was the fact that over 40% of the interviewed people would actually be ready to use automated advice when making investments. When making these investments only 10% argue that their wealth management needs are so complicated that they could not be done online.

Furthermore, over 60% of people under the age of 45 could see themselves invest with a robo-advisor or use automated advice in order to invest money. The percentage, however, declined drastically for people over 45. In the age category 45-54, only about 35% of the people who answered could see themselves using robo-advisors when making investment decisions. In the age group of 55+, only slightly more than 20% of the people who answered could see themselves using automated advice. This confirms the observations made in the United States and gives us a hypothesis about what the situation in Finland might be like.

In the long term, robo-advice will probably not only be a way to provide cheaper wealth management for a specific customer segment but also a way of communicating not only wealth management advice but all types of financial advice to all customers. In the United Kingdom, hybrid advice will, however, probably be likely to dominate in the short and medium term.
Germany

Germany is the third country where robo-advisory has been developed quite far already. The first robo-advisory company was established about four years ago in Germany. Some of the major banks have started to show interest in the capabilities of the robo-advisory firms. For example, Fincite has secured a partnership with Deutsche Bank and currently provides a risk assessment solution for Deutsche Banks’ clients. Basically this means that the clients take a survey provided by Fincite and then the platform recommends suitable investment alternatives for the client (Robo-advisory 1.0).

Other examples from the German robo-advisory are from the online brokers DAB and Consors Bank that have partnered with Ginmon. Ginmon can be categorized as a robo-advisor 3.0 and is, therefore, one of the most well developed solutions on the market today. Ginmon provides both recommendations to the clients and can also, if desired, reallocate the clients’ assets.

The largest robo-advisor in Germany is Scalable Capital, which has approximately €125 million in asset under management. Scalable Capital operates in Germany but also has a license to operate in the United Kingdom.

In Germany, observations have been made regarding the upcoming generation shifts. As the Millennials and Generation X grow older and slowly become the main targets of wealth managers they also require a shift in the services provided by these companies. This shift has already begun as can be seen in the surveys and studies done in the United States and the United Kingdom.

The wealth managers have identified that the German investors usually like technology and digital content and, therefore, the financial companies struggle to some extent to keep up with the digitally-enabled FinTech companies. Since the German investors seem to like digital content, they also trust the service providers and give the investment management responsibilities easily to robo-advisory firms that promise sophistication, low-cost and automated investment solutions.

This is probably also one key reason why many partnerships have been secured in Germany. Experts argue that the affluent customers have been widely underserved in the segment so far and with the new technology solutions that robo-advisors provide they will receive better and more sophisticated investment advice at a lower a lower price point than what they are getting today.
The wealth management market in Finland

Before examining what the wealth managers in Finland think about the future of robo-advisory, we will provide a short overview of the Finnish wealth management market. We refer to the Finnish wealth management market as the mutual fund market in Finland. The Finnish wealth management market is a more than €100 billion industry. It is today dominated by three major banks operating in Finland but will these banks be able to maintain their dominating position going forward?

Key players

The current situation in Finland is that the Finnish wealth management market is clearly dominated by three big banks: Nordea, OP, and Danske Bank. This can be seen in the graph below. These three players have a market share of over 70%. Their combined assets under management are more than 70 billion euros. Apart from these three, there are a large number of smaller players that have market shares from approx. 6% (Evli) to 0.1% (Jom rahastoyhtiö).

The domination of these three players might be expected since most of the Finnish people concentrate their banking and wealth management services to one or two financial institutions. This is something that the banks have pushed for over a long period by cross selling products. By doing this, the large retail banks have gained a firm grip of the wealth management market in Finland.

There have not been any large changes in the market shares of the mutual fund companies during the past 10 years. The biggest change is that Danske Bank bought Sampo and, therefore, took over and rebranded the Sampo mutual fund company. However, the three big players controlled 73% of the mutual fund market in 2006 versus the 72% for the same players in 2016. This is a clear indication that the shifts on the mutual fund market in Finland are very small.
Finnish financial institutions perspective

This section will provide insights into the robo-advisory market in Finland. The aim of this chapter is to give the reader an overview of what is going on in the robo-advisory landscape in Finland. This includes providing insight into what the banks and wealth managers believe robo-advisory could be in a couple of years. The chapter is based on interviews and a survey with market players that together cover approximately 90% of the Finnish wealth management market.

When talking about wealth management today, there are three main service provider groups: banks, traditional wealth managers, and FinTech robo-advisors. Based on the insight gained from the interviews, the groups have different characteristics as firms and how they plan on using robo-advisory.

Banks

Banks that provide wealth management for their clients clearly indicate that wealth management robo-advisory is just a small part of what they plan to provide for their customers. The long-term goal is to develop a robo-advisor that will analyze the whole customer relationship and will be able to provide recommendations regarding refinancing, wealth management, credit cards, and insurance. Wealth management will, therefore, only be a small part of the capabilities of the robo-advice software.

Many of the banks think that robo-advisory will have a positive effect on customer satisfaction. This is because there is no risk of a “bad day” ruining the customer experience. All customers receive exactly the same service. However, this could also be a problem, as people are different and they also have different expectations. The question is how can you ensure that both the customers who come in once every five years are as pleased leaving the bank as the ones visiting the bank multiple times a year?
Many of the banks think that robo-advisory will have a positive effect on customer satisfaction. This is because there is not a risk of a “bad day” ruining the customer experience.

“Traditional” wealth managers

In Finland, most wealth managers focus on providing wealth management for affluent or high-net-worth individuals. The customers of traditional wealth managers, therefore, already enjoy the benefits of their private banking status.

A robo-advisor could potentially provide similar services for a little bit less. However, most of these clients have complex wealth management and tax solutions that a robo-advisor at this point would not be able to take into account. Therefore, most of the traditional wealth managers argue that there is no point for them in developing a robo-advisor. The wealth managers stated that they might develop some kind of robo-advisory solutions in order to have it available for the customers that want to try it, but it will not affect their core business in any way, at least not in the upcoming years.

FinTech robo-advisors

The robo-advisors are currently trying to find a place for themselves. Their market share in Finland is next to non-existent, giving them the possibility to gain some foothold in the market. They try to focus on the retail and mass market that do not have enough assets to be interesting to the wealth managers and are currently mainly served by their own bank. The goal for the robo-advisors is to gain a stable customer base that is looking for a transparent and maybe even cheaper way of investing compared to what is available on the market right now.

The problem for FinTech robo-advisors entering the market is to grow enough to ensure operations. It all comes down to distribution and in Finland this is a huge task. As mentioned before, almost no shifts have happened in the Finnish market during the last decade. The same three big players control over 70% of the market than 10 years ago. How to disrupt this is a huge task, especially for FinTech robo-advisors without brand recognition.

One of the selling points that the FinTech robo-advisors currently are using is that every client reaches private banking status when becoming a customer. However, this is not a way of differentiating and as soon as there are a couple more firms on the market this selling point will no longer be usable, since all the firms will be able to use it.
Development of robo-advisory services

Robo-advisory is something that interest a lot of the key players in the wealth management market in Finland today. According to the conducted interviews, all the key players are, in one way or another, thinking about developing robo-advisory solutions. However, in this initial stage of this maturing market, the capabilities of the robo-advisory will be in the 1.0 (assessing customer risk profile) or 2.0 stages (making portfolio allocations). In the graph on the right, these two received the majority of the votes, whereas robo-advisory 3.0 or 4.0 capabilities only had approx. 5% each of the votes.

In addition, the wealth managers were asked to guess how long it would take to develop robo-advisory capabilities. In the interviews, the wealth managers stated that in about one year they could develop a market ready robo-advisor. This statement was confirmed by the survey when 78.4% answered that their firm would need between 6 and 18 months to do the same. This, of course, depends on what capabilities the robo-advice software would have but the first version would be able to assess customer risk profiles and maybe make portfolio allocations.

Robo-advisory capabilities

Q: If you are developing robo-advisory capabilities, what kind of capabilities will this robot have?

<table>
<thead>
<tr>
<th>Capability</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accessing customer risk profile</td>
<td>78%</td>
</tr>
<tr>
<td>Making portfolio allocations</td>
<td>51.2%</td>
</tr>
<tr>
<td>Rebalancing investment portfolios</td>
<td>4.9%</td>
</tr>
<tr>
<td>Making investment decisions</td>
<td>4.9%</td>
</tr>
<tr>
<td>All of mentioned capabilities</td>
<td>7.3%</td>
</tr>
</tbody>
</table>

Time to develop robo-advisory capabilities

Q: How long do you believe it takes to develop robo-advisory capabilities/services for your firm?

<table>
<thead>
<tr>
<th>Time Duration</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-6 months</td>
<td>13%</td>
</tr>
<tr>
<td>6-12 months</td>
<td>45.7%</td>
</tr>
<tr>
<td>12-18 months</td>
<td>32.6%</td>
</tr>
<tr>
<td>18-24 months</td>
<td>6.5%</td>
</tr>
<tr>
<td>More than 24 months</td>
<td>2.2%</td>
</tr>
</tbody>
</table>
Despite the fact that wealth managers argue that it will not take that long to develop robo-advisory capabilities for them, we have not yet observed any solutions that have been marketed heavily even if the incumbents argued that there is a clear first mover advantage. This is because there is a big risk in being the first one launching a new service. If the robo-advisor is not good enough for the consumer the possibility to gain the trust of the consumer back is slim. Therefore, wealth managers are cautious and want to test everything before launching any services. The risk of losing is big but the reward of succeeding is also real.

The last thing that we asked on the development of robo-advisors was whether the wealth managers believed that start-ups or established players have equal possibilities to develop a robo-advisor. The Finnish financial authority argues that it does not matter if you are an established player or a start-up; both have the same rules to follow. As can be seen in the graph below, this statement was confirmed by the wealth managers. In the interviews with the wealth managers some argued that start-ups might have it easier to develop new IT systems since they do not have an old IT legacy and, therefore, can build their platform from scratch.

Another thing that was raised during the interviews was that today the regulator requires wealth managers to give enough information about the product before they are allowed to sell the product to the client. The problem is how to document this, especially, if the product is sold in an online environment. How can you be sure that the client really understands how the product works and that he has not just accepted the terms? The wealth managers argued that this is something that the Finnish Financial Authority could provide a clearer framework for.

However, all the wealth managers still believe that from a pure regulation perspective both start-ups and established players have more or less the same possibilities to succeed.
Characteristics of an investor

According to the wealth managers the potential investor in Finland is quite young. 87% of the investors will probably be between 25 and 44 years old. Additionally, these investors do not have substantial savings. They will probably belong to the retail or mass affluent market segment. According to the wealth managers’ best guess estimate, these investors have approximately €40,000 in investable assets.

Furthermore, no wealth managers saw big potential yet with providing robo-advisory to institutions. This is probably because institutions have strict policies on how the assets can be invested and how allocation between asset classes should be. Robo-advisors are not yet developed enough to provide such a sophisticated service. However, it might be possible in the future and then the assets under management for robo-advisors might increase exponentially.

Observations about the age are very similar to the observation in the United Kingdom and the United States. A few of the investors using robo-advisory in these countries are actually older than 45 years.

The wealth managers were asked to provide their insight also into how open their customers are to the fact that software would manage their money. Almost 90% of the wealth managers stated that less than 50% of their customers would be ready to let software manage their money entirely.

The interviews confirmed this, but here it depends on how you “sell” the robo-advisor to a client. The wealth managers argued that if you sell the robo-advisory service as a robot that makes investment decisions based on some algorithm investors will be skeptical. However, if you sell it as a way of getting wealth management cheaper and you will still be able to talk to your wealth manager if you like, investors will be more likely to try it out.

We argue that wealth managers will try to brand the robo-advisors not as a pure robot but as some form of hybrid version and, therefore, according to our study, over 50% of the wealth managers believe that more than 25% of their customers have tried to invest some money with a robo-advisor in the next 5 years.
Over 50% of the wealth managers believe that more than 25% of their customers have tried to invest some money with a robo-advisor in the next 5 years.

**Future of robo-advisory**

In order to build a report on how the robo-advisory market will develop the wealth managers were asked to provide their best guess estimate for how much assets will be managed by robo-advisors in 5 years. Over 65% stated that the assets under management will be over 1 billion euros. However, very few thought it would pass the 5 billion euro point. During the interviews, some wealth managers argued that if all the key players launch robo-advisors and actively market it to their clients the asset under management could be up to 10 to 15 billion euros.

Furthermore, we asked the wealth managers to provide their input on the popularity of hybrid robo-advice in the future. Over 90% of the respondents argued that hybrid robo-advice will probably be successful over the next 10-15 years. Based on the survey and the interviews a conclusion can be made that wealth managers believe they will be able to use robo-advisors in order to make their job more efficient and thereby probably cut costs for wealth management. In addition, since robo-advisors are often developed in-house, wealth managers trust that their own potential robo-advisor is going to be of high quality and meet their own standards and that they will also use it even if the client might not want to invest directly with a robo-advisor.

### Robo-advisory assets under management in 5 years

Q: How big do you believe the robo-advisory market (asset under management) could be in 5 years in Finland?

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>€0.0-0.25 billion</td>
<td>2.2%</td>
</tr>
<tr>
<td>€0.25-1 billion</td>
<td>30.4%</td>
</tr>
<tr>
<td>€1-2 billion</td>
<td>45.7%</td>
</tr>
<tr>
<td>€2-5 billion</td>
<td>19.6%</td>
</tr>
<tr>
<td>More than €5 billion</td>
<td>2.2%</td>
</tr>
</tbody>
</table>

### Hybrid robo-advisory in the future

Q: Do you believe that hybrid robo-advice (e.g. a combination of human interaction and automated investment decision) is successful going forward for the next 10-15 years?

<table>
<thead>
<tr>
<th>Response</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>28.3%</td>
</tr>
<tr>
<td>Probably</td>
<td>63%</td>
</tr>
<tr>
<td>Probably not</td>
<td>8.7%</td>
</tr>
<tr>
<td>No</td>
<td>0%</td>
</tr>
<tr>
<td>No opinion</td>
<td>0%</td>
</tr>
</tbody>
</table>
Conclusion

This chapter will present the ways of developing robo-advisory and raise some important questions that the market players will need to think about before developing their own robo-advisory.

How robo-advisors change the market outlook

Robo-advisory will most probably change wealth management fundamentally. This change will lead to more efficient and transparent wealth management in the future. Furthermore, robo-advisory allows wealth managers to offer a cost-efficient solution to a large number of smaller customers, who so far have not been able to benefit from highly customized wealth management.

After observing FinTech robo-advisors in Finland and it is expected that the incumbents will follow and launch their own solutions soon. However, while the incumbents and FinTechs are developing these solutions there are a couple of things that are important to think about.

Indications for key market players

All of the incumbents have argued that the market is changing. Below is a map to how robo-advisory affects each of the market participants.

Key options for different robo-advisory providers

<table>
<thead>
<tr>
<th>Robo-advisory providers</th>
<th>Key questions</th>
<th>Future Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fintech robo-advisors</td>
<td>1. What is the ultimate goal and timing 2. How to prove the potential of the solution 3. How to become profitable 4. How to get large enough market share and volume</td>
<td>a. Stay independent b. Sell white label services c. Sell the company</td>
</tr>
<tr>
<td>“Traditional” wealth managers</td>
<td>1. Do we offer robo-advisory services 2. What are the impacts of our business 3. Do we have resources for in-house development</td>
<td>a. Continue as usual or increase human capability b. Improve current services levels c. Buy white label services d. Develop in-house robo-advisory services</td>
</tr>
<tr>
<td>Retail banks with wealth management divisions</td>
<td>1. How to create robo-advisory services</td>
<td>a. Develop in-house robo-advisory services b. Buy white label services c. Acquire robo-advisory company</td>
</tr>
<tr>
<td>Bigger banks</td>
<td>1. How to create robo-advisory services</td>
<td>a. Develop in-house robo-advisory services b. Buy white label services c. Acquire robo-advisory company</td>
</tr>
<tr>
<td>Smaller banks</td>
<td>1. Do we offer robo-advisory services 2. Do we have resources for in-house development</td>
<td>a. Develop in-house robo-advisory services b. Buy white label services c. Continue as usual or increase human advisory</td>
</tr>
</tbody>
</table>
FinTech robo-advisors

There are a couple of key options that the potential robo-advisory providers need to ask themselves in order to succeed in the future marketplace. Starting with the FinTech robo-advisors, the first thing that they need to identify is their long-term goal. Is it to partner with an incumbent and reach the masses together or to be an independent actor?

If the end-goal is to be an independent actor the robo-advisor needs to have an action plan for how to reach the masses without a distribution channel. If a provider wants to be able to make it on their own it is key to gain a large market share before the incumbents launch their own competing robo-advisory solutions. If the FinTech robo-advisor does not get a significant market share it will have a hard time in surviving. If the FinTech robo-advisor launches after all the incumbents have their solutions in the market one can ask why an individual would invest with an unknown start-up if there is a possibility to get the same service from an incumbent.

If the end-goal, however, is to partner with an incumbent it is essential to gain a large customer base but rather to prove that the concept works and to try to reach profitability. Proof of high customer retention and the ability to keep the customers that have invested money with the robo-advisor is crucial here. The larger distribution of the robo-advisor service will in this case be provided in collaboration with the incumbent.

“Traditional” wealth managers

The key question for the wealth managers will be to figure out if they want to provide robo-advisory services to their clients or not. Is it just a marketing tool for them or do they see the chance to really change their client service offering and approach?

If they decide that they do not want to do that, they need to be able to justify the higher price point that face-to-face wealth management usually comes with. In the future their service level will need to increase further as the younger generations, who are accustomed to the lower price points by then, become the main client group for these institutions. Wealth managers will probably have to focus on the high net worth clients and thereby market themselves as private bankers.

If the “traditional” wealth managers decide that they will build a robo-advisor the key question will be to decide if they want to partner with a FinTech robo-advisor or if they have the capabilities to build their own solution. Partnering with an existing FinTech robo-advisor will allow them to access the market faster but the solution might not be costumed for specific needs.

If the wealth manager decides to build a robo-advisor on its own it will probably take about one year to develop the solution. The advantage is customizability of the solution according to own needs.

Retail banks

The question for the bigger retail banks is not whether or not to develop a robo-advisor but how to develop it. Do they develop it themselves? Do they buy a FinTech start-up or do they partner with a FinTech start-up?

When the decision on how to obtain a robo-advisor has been made the question will be to determine to what customer segments the robo-advisor is mainly promoted and which arguments are used in sales. Is the focus on making an efficient solution for the bank that will potentially increase its profit margins or is the aim to get as much assets under management as possible?

In addition, the retail banks have to think about their existing products and how a robo-advisor might affect these. Is the aim of the robo-advisor to replace some parts of the wealth management offerings or is it an add-on that increases the ways of investing for the customers?

In general, the wealth management market is growing and the usage of robo-advisory will grow even faster. From a growth perspective, the key customer segments will be the retail and mass affluent individuals at the age of 25-45. Robo-advisory enables cost efficient wealth management services to be provided to these customer segments. Since there are cost sensitive customers in every customer segments robo-advisory is something that all market players need to consider - no one will be immune to its effects.
Endnotes


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