

Special Report

Exploring the Robo-Advisory Landscape



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Executive Summary

Robo-advisory Landscape



Understanding Robo-advisors

- A robo-advisor is a digital financial advisor who manages investments or offers financial advice with little to no human involvement.
- It is designed to provide advice digitally based on investor input.



Robo-advisor Competitive Landscape

- Vanguard is the largest robo-advisor with an AUM of US\$ 206.6 Bn. Charles Schwab is second with assets worth US\$ 65.8 Bn.
- Fidelity maintained the fastest growth trajectory since 2017.



Business Models for Robo-advisors

- Robo-advisors may operate in one of the following ways – standalone, fully-integrated, segregated and robo for advisors.
- Transparency and simplicity are a few pros, while it lacks customization and personal touch.



M&A Activity in Robo-advisory Space

- Many financial services firms use M&A to expand their offerings and enter the robo-advisory landscape.
- Robo-advisors have developed their own ways to compete for their growing market share.



Robo-advisors vs Financial Advisors

- Robo-advisors are cheaper and have lower deposit requirements. Portfolios are passively managed aimed at replicating the market.
- Financial advisors are expensive as portfolios are actively managed with customized solutions.



Role of Technology and the Way Forward

- The efficiency of robo-advisors is expected to increase with developments in advanced analytics, AI and machine learning.
- Asset managers focus on improved personalization and better advisory outcomes.

Understanding Robo-advisors

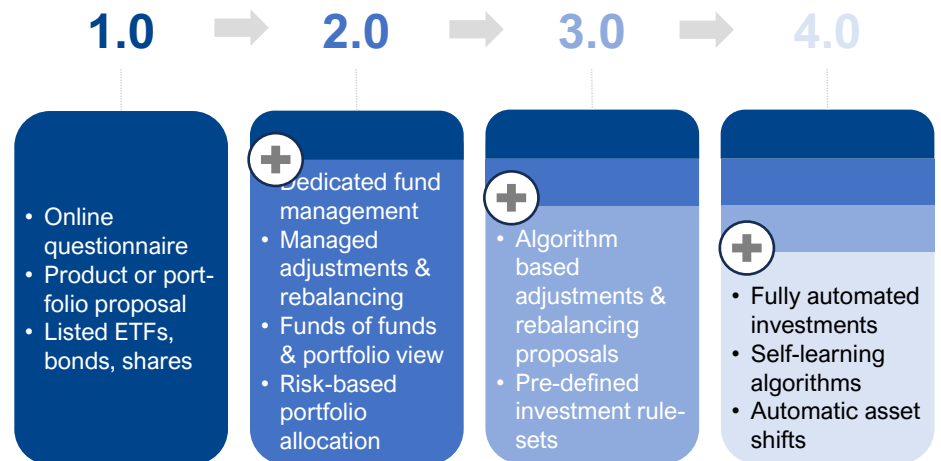
Robo-advisors are digital platforms that offer investment, wealth and financial planning solutions

- A robo-advisor is typically an online platform that offers algorithm-driven, automated financial planning and investment solutions with minimal or no human oversight.
- Using an online survey, a typical robo-advisor inquires about your financial situation, status and future financial objectives. It uses this data to provide advisory solutions and make automatic investments on your behalf. Robo-advisors are designed to comprehend investors needs, suggest investment and allocation plans, implement the chosen allocation, monitor results and rebalance portfolios as per strategy.
- The first robo-advisors – Betterment and Wealthfront, were launched in 2008, however the technology was not new at the time. Human wealth managers have been using automated portfolio allocation software since the early 2000s. Prior to Betterment and Wealthfront, only wealth managers could purchase the technology. However, they needed to hire a financial advisor to benefit from the advancement.
- Today, many robo-advisors employ passive indexing strategies that are automated and optimized using modern portfolio theory (PMT). Generally, the account user is not allowed to purchase individual stocks or bonds in their account, nor can they select which mutual funds or exchange-traded funds (ETFs) to invest in.

Services Provided by Robo-advisors



Robo-advisory Evolution



Source: Aranca Research

Business Models for Robo-advisors

Broadly operates under four types – the difference is based on how they interact and integrate to provide services

Business Models

Standalone Robo-advisors

- These robo-advisors are unaffected by products on the market.
- They are not permitted to accept incentives.
- Offering independent advice in accordance with MiFID II is made possible by this paradigm.



Fully Integrated Robo-advisors

- The robo-advisor is incorporated into the bank's business model.
- The robo-advisor's clients are also clients of the bank.
- The robo-advisor exists within the bank's service offerings and is neither an independent advisor nor a separate legal entity



Robo for Advisors

- Robo for advisor, as the name suggests, is targeted towards wealth and asset managers.
- Wealth managers provide a human touch and establish a distribution channel for robo-advisors.



Segregated Robo-advisors

- In this case, robo-advisory is a separate offering and may operate independently with the parent company or in tandem to deliver certain services.

Pros & Cons of Robo-advisors

Addresses a large untapped market with minimal fees and no minimum account balance requirements, making it accessible to the new generation

Transparency and simplicity through objective services and a high degree of reporting in compliance with national and international laws and regulations

Accessibility and convenience via online applications and interactive tools, with dashboards that display real-time data and prompt users to take the necessary action

Pros

Cons

Lacks customization but user experience can be improved via cutting-edge concepts like deep learning and NLP for more personalization

Maintaining the algorithm and keeping it up-to-date may be a hassle. Need reliable modelling and efficient methods for upgrading decision engines

Robo-advisors are **not as good at supporting investors in downturns** compared to the traditional approach with human intervention. As of now, robo-advisors are effective only under reasonably steady or positive market conditions

Robo-advisors vs Financial advisors

Both are helpful resources for investors. However, there are distinct differences.

	Robo-advisors	Financial Advisors
Investment Offerings	Invests in index funds or exchange-traded funds (ETFs) due to their robust past performance and cheaper expense.	Design portfolios consisting of various securities such as individual stocks, bonds, mutual funds, ETFs and complex products like REITs, futures and options.
Financial Planning	Constrained in their ability to customize their financial planning. Robo-advisors can offer basic financial guidance but can't identify development areas like a financial advisor can.	Develop holistic programs to help clients reach their financial objectives. In addition to retirement investing, they may assist with tax optimization, estate planning, and customized financial solutions.
Management Style	Portfolios are passively managed as they invest in ETFs and index funds aiming to replicate the market performance.	Portfolios are actively managed with the aim of making calculated investment decisions to beat the market.
Annual Fees	Significantly cheaper than financial advisors. They may charge a monthly fee or an annual management fee of a % of AUM.	Compensated differently and more expensive as they provide personalized financial solutions. They may charge the following: <ul style="list-style-type: none"> • An hourly fee • A flat annual fee • Commission on securities bought or sold • Fees or loads based on investment or annuity
Minium Deposits	Lower deposit requirements – platforms like Betterment and Acorns allow users to start with as little as \$10 or less.	Require higher deposits and significant assets to invest. Typically requires \$50,000 or more to qualify for advisory services depending on the advisor.

Source: Forbes

Segmental Targets for Robo-advisors

Robo-advisors fill the niche between discount brokers and traditional wealth management.



Discount Brokerage



Robo-advisor



Hybrid Robo-advisor






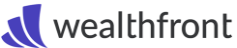

Wealth Manager

	Discount Brokerage	Robo-advisor	Hybrid Robo-advisor	Wealth Manager
Clients	DIY traders and investor	Mass market (<\$100k)		
		Middle Market (\$100k-\$500k)		
			Mass Affluent (\$500k-\$2M)	
				Affluent & High Wealth Markets (>\$2M)
Service	Low or no-cost trade execution	Low-cost asset allocation		Personalized investment management & asset allocation
Tools	Trading tools	Basic goal planning	Advanced goal & financial planning	Ongoing relationship with the dedicated financial advisor and/or team
Benefits	Investment information	Basic financial planning	Access to a qualified financial advisor	Advice on retirement and income planning, tax strategy, risk management and insurance, estate planning, charitable donations, generational wealth

Source: Morningstar

Competitive Landscape (1/2)






Top 10 Robo-advisors by AUM

Companies	AUM (USD Bn)	Individual Clients	Fees, Charges & Minimum Investment Required	Description
 Vanguard®	206.6	1,100,000	<ul style="list-style-type: none"> Digital Advisors <ul style="list-style-type: none"> Minimum: \$3,000 Fees: 0.15% of AUM Personal Advisor Services <ul style="list-style-type: none"> Minimum: \$50,000 Fees: 0.30% of AUM 	<ul style="list-style-type: none"> Provides two types of robo-advisors – Vanguard Digital Advisor (VDA), a pure robo platform, and the hybrid Personal Advisor Services (PAS) that combines access to human advisors with automated portfolios. VDA and PAS have evolved into an ecosystem of advice, united by a common investment philosophy, similar if not identical investment strategy building blocks, and low cost. They differ in the degree of customization and suite of services.
 Charles SCHWAB	65.8	262,000	<ul style="list-style-type: none"> Schwab Intelligent Portfolio <ul style="list-style-type: none"> Minimum: \$2,500 Fees: No fee Intelligent Portfolio Premium <ul style="list-style-type: none"> Minimum: \$30,000 Fees: \$30 monthly + \$300 one-time planning fee 	<ul style="list-style-type: none"> Offers two automated investment options – the Schwab Intelligent Portfolio that provides fee-free investment management, and the hybrid Schwab Intelligent Portfolio Premium that allows access to Certified Financial Planners (CFPs) for a monthly subscription fee.
 Betterment	26.8	615,000	<ul style="list-style-type: none"> Betterment Digital <ul style="list-style-type: none"> Minimum: N.A Fees: 0.25% of AUM Betterment Premium <ul style="list-style-type: none"> Minimum: \$40,000 Fees: 0.40% of AUM 	<ul style="list-style-type: none"> One of the pioneers of robo-advisors, Betterment provides two types of robo-advisors – a pure robo called Betterment Digital and a hybrid called Betterment Premium. While Premium clients have access to virtual consultations with CFPs at any time as part of their management tier, Digital clients can obtain affordable financial planning packages on an as-needed basis.
 wealthfront	21.4	307,000	<ul style="list-style-type: none"> Minimum: \$500 Fees: 0,25% of AUM 	<ul style="list-style-type: none"> One of the first standalone robo-advisors, Wealthfront exclusively provides an all-digital platform. The platform's online Path Financial planning tool is so extensive that it could compete with a human financial planner. Additionally, it is the only startup robo to provide a 529 account. Higher account balances unlock features like stock-level tax-loss harvesting.
 EMPOWER	16.1	26,000	<ul style="list-style-type: none"> Minimum: \$100,000 Fees: 0.89% of AUM 	<ul style="list-style-type: none"> Offers a robust suite of free financial management tools along with paid hybrid robo-advisory services via Personal Capital Advisors. Recently acquired by Empower Retirement, the company uses an exclusive equal sector weighting strategy for its asset allocation.

Source: Forbes

Competitive Landscape (2/2)

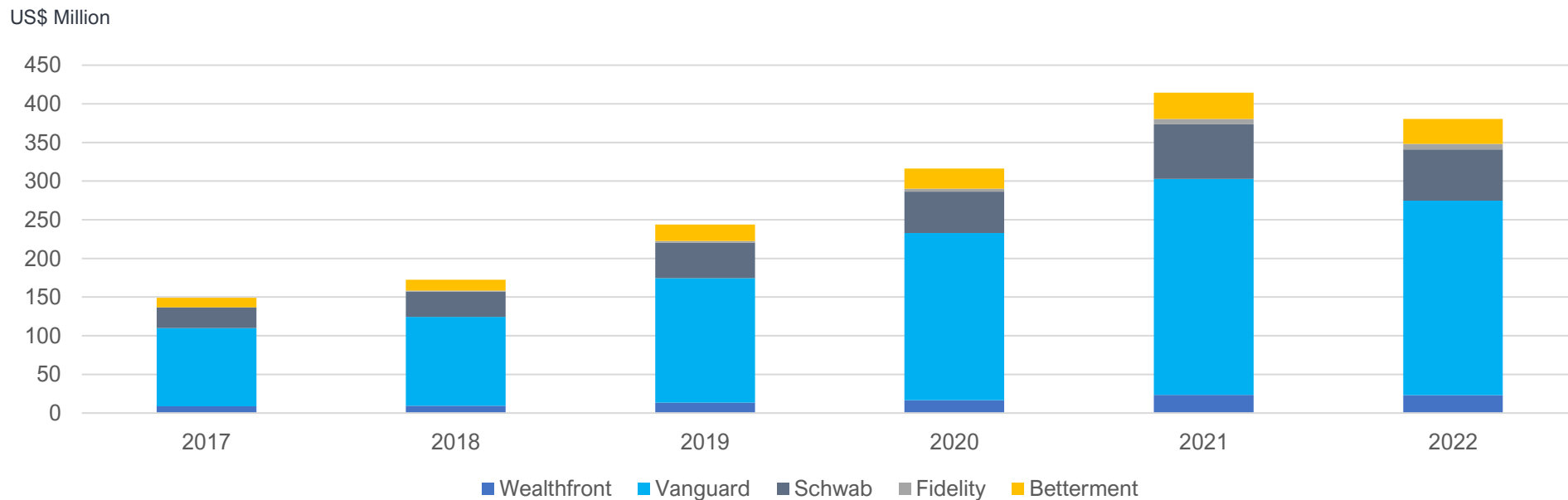
Top 10 Robo-advisors by AUM

Companies	AUM (USD Bn)	Individual Clients	Fees, Charges & Minimum Investment Required	Description
 bloom	5.0	24,000	<ul style="list-style-type: none"> Fees: \$45-\$250 per year 	<ul style="list-style-type: none"> Bloom focuses exclusively on managing retirement accounts. After linking retirement accounts, Bloom evaluates the current asset allocation, funds, and fees to suggest better asset allocation with possibly greater, lower-fee risk-adjusted returns. Bloom's platform and planning tool can be sampled for free. However, to receive portfolio suggestions, users need to enroll and pay a fee.
 acorns	4.7	4,400,000	<ul style="list-style-type: none"> Fees: <ul style="list-style-type: none"> \$1 monthly for taxable investment account \$3 monthly for the above plus a retirement and checking account \$5 monthly for the above plus a taxable investment account for children 	<ul style="list-style-type: none"> Acorns started as a spare change app and is expected to go public this year. The basic plan allows users to invest spare change and set up periodic payments into a portfolio of exchange traded funds (ETFs). Investment accounts for retirement and minors are included in more comprehensive plans.
 M1 Finance	3.9	9,000	<ul style="list-style-type: none"> Minimum: \$100 Fees: \$3 monthly platform fee for users without an active M1 personal loan or less than \$10,000 M1 assets. 	<ul style="list-style-type: none"> Since its launch in 2015, M1 Finance has expanded quickly to emerge as a prominent player in the financial space. M1 functions similarly to a robo-advisor while not being one because it provides more than 80 pre-made investing portfolios. Clients can also create personalized portfolios from a stable of over 6,000 equities and exchange-traded funds (ETFs).
 FutureAdvisor	1.8	24,000	<ul style="list-style-type: none"> FutureAdvisor Premium <ul style="list-style-type: none"> Minimum: \$5,000 Fees: 0.50% of AUM 	<ul style="list-style-type: none"> After being founded in 2010, FutureAdvisor was acquired by BlackRock in 2015. It offers two primary services – a free investment portfolio evaluation and FutureAdvisor Premium, a robo advisor that manages investments in current TD Ameritrade or Fidelity Investment accounts.
 SIGFIG	1.4	27,000	<ul style="list-style-type: none"> Minimum: \$2,000 Fees: 0.25% of AUM over first \$10,000 managed 	<ul style="list-style-type: none"> Established in 2012, SigFig manages investments held in accounts with Charles Schwab, TD Ameritrade or Fidelity Investments. It builds investment portfolios in line with customer objectives using a blend of technology and investment research. All clients have access to financial advisors and users connecting their account to SigFig are provided a free portfolio tracker.

Source: Forbes

Asset Growth Trends for Top Robo-advisors

Fidelity's assets grew significantly compared to its peers



- Fidelity has maintained the fastest growth trajectory since 2017, but as its anticipated \$7 billion in assets under management multiply, that rate is expected to drop.
- Providers with tens of billions of dollars in assets under management, such as Wealthfront, Betterment, and Schwab, stabilized their yearly growth rates at 20%. Vanguard has also increased, even though it is over four times larger than Schwab, its next-biggest competitor.
- An arms race in robo-advisor capabilities is underway among industry heavyweights. Vanguard recently made automated tax-loss harvesting available to all tiers of its offering, joining SigFig, Wells Fargo (via its SigFig partnership), Betterment, Wealthfront, and U.S. Bancorp.
- Many providers have added or are planning to add ESG versions of their portfolios.

Source: Morningstar

Robo-advisor M&A Activity

Several prominent robo-advisors have found scale in mergers and acquisitions

June 2024 

SAMPO GROUP

Topdanmark

Finland's Sampo Oyj agreed to buy Topdanmark A/S in a deal worth \$4.7 billion, consolidating the insurance landscape in Denmark.

May 2024 

日本生命

corebridge financial

Nippon Life Insurance completed its acquisition of Corebridge, a leading provider of life insurance, retirement planning and asset management, in a deal valued at \$3.8 billion.

May 2024 

THE Ardonagh GROUP

PSC INSURANCE GROUP

The Ardonagh Group, a leading insurance broking platform acquired Australian-headquartered and ASX-listed PSC Insurance Group in a landmark \$1.6 billion transaction.

May 2023 

HDI

Liberty Mutual INSURANCE

Liberty Mutual Insurance company agreed to sell its Latin American business to HDI International AG in a \$1.5 billion deal as it focuses on its core US operations.

May 2023 

MIZUHO

Greenhill

Mizuho Financial Group acquired Greenhill & Co. for \$550 million, accelerating its investment banking growth strategy and adding complementary services to the firm's existing capabilities.

April 2023 

RATHBONES

Investec
Wealth & Investment


UK-based wealth manager Rathbones acquired rival Investec Wealth and Investment UK for \$1.0 billion, creating the UK's leading discretionary wealth manager with more than \$130 billion of assets.

April 2023 

IGM Financial

ROCKEFELLER
CAPITAL MANAGEMENT

IGM Financial completed the acquisition of Rockefeller Capital Management in a deal valued at \$622 million.

February 2023 

RITHOLTZ
wealth management

BLACKROCK

BlackRock, which acquired robo-advisor platform FutureAdvisor in 2015, sold its direct-to-consumer business to Ritholtz Wealth Management, a New York-based RIA firm.

Source: GlobalData, Morningstar, Aranca Research

Role of Technology in Enhancing Robo-advisory Services

Touchpoints across wealth management value chain with potential for technological advancements

Division	Category	Tasks			
Front Office	Marketing & Client Acquisition	Strategy Development	Lead Generation, Prospecting, Referrals	Measure Results	
	Client Onboarding & Administration	Account Opening/ Closing/ Maintenance	Client Due Diligence/ KYC	Risk Profiling	Customer Management/ Client Relations
Middle Office	Investment Planning	Goal Setting	Education	Financial Planning	Tax Planning
	Research, Analytics and Allocation	Investment Research	Pre-trade Analytics	Allocation	
	Portfolio Management	Portfolio Construction	Cashflow Assessment	Portfolio Monitoring & Alerts	Rebalancing
	Risk & Reporting	Performance & Trade Reporting	Ad-hoc and Client Self-service Reporting	Risk Monitoring & Reporting	
Back Office	Transaction/Trade Execution	Pre-trade Compliance	Trade Routing & Processing	Trade Matching & Settlement	Reconciliation
	Accounting	Trade & Portfolio Accounting	Commission & Fee Allocation	Billing	
	Legal & Compliance	Regulatory Monitoring	Business Audits	Data Security	
	Data Management	Data Acquisition & Provisioning	Data Warehousing & BI	Analytics & Visualization	

Current State No Impact Low Impact Medium Impact High Impact

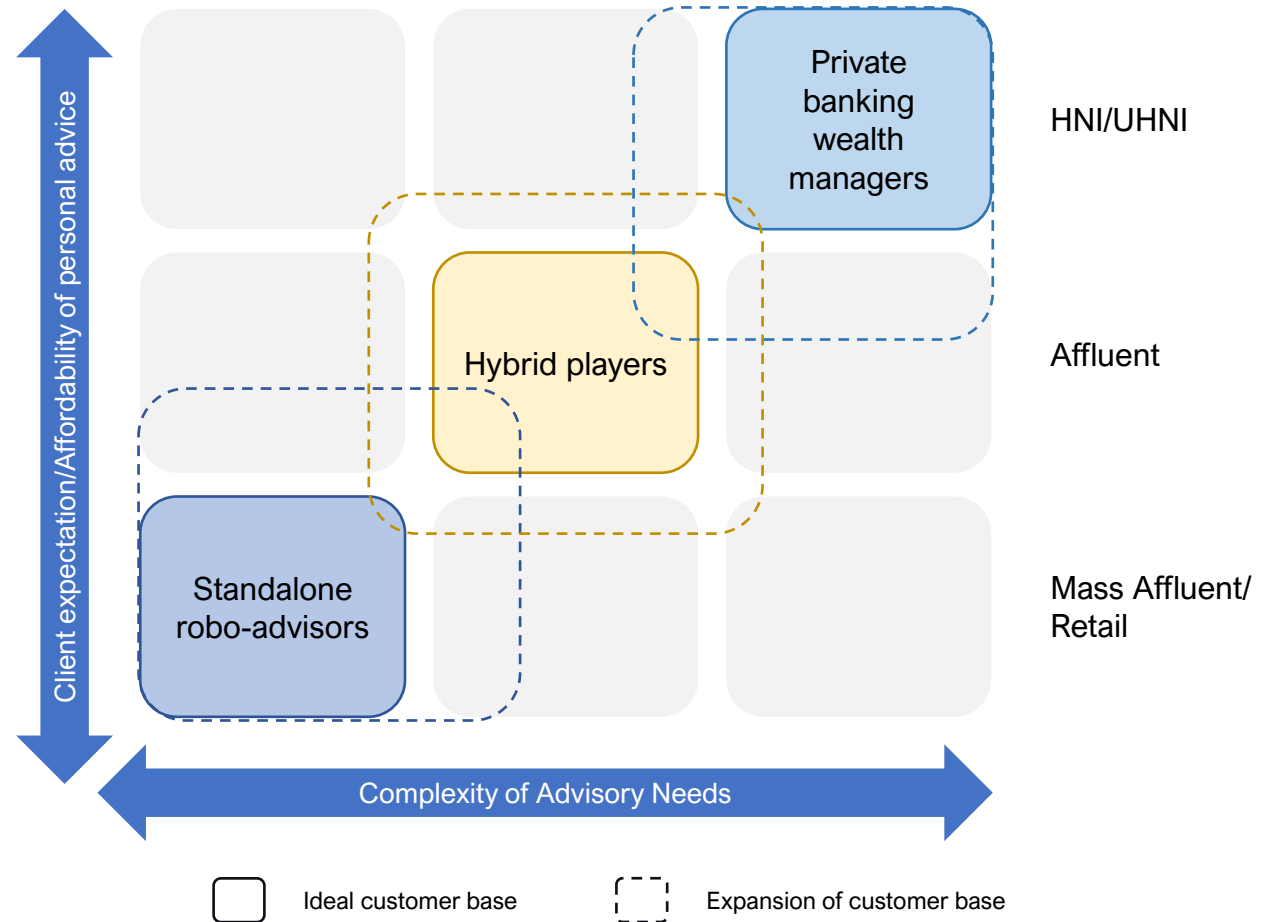
Future State Low Impact Medium Impact High Impact Very High Impact

Source: Wipro

Robo-advisory: The Way Forward

Robo-advisors can evolve to address the affluent segment with better personalization and improved services

- The efficiency of robo-advisors is expected to increase with the development of technology in fields like advanced analytics, artificial intelligence, machine learning and natural language processing.
- By embracing these technological advancements, wealth and asset managers augment their services and offer improved personalization, enhanced customer experience and better advisory outcomes.
- While established hybrid players can focus on growing at both ends of the spectrum, traditional wealth managers and standalone robo-advisors can increase market share by adopting the hybrid strategy.



Source: Wipro



2500+

Global Clients

500+

Strong professional team across
multi-disciplinary domains

120+

Sectors and sub-sectors
researched by our analysis

80+

Countries where we have
delivered projects

ABOUT ARANCA



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Brokerage, Hedge Funds, IRPs, I-Banks, AMCs, Investor Relations

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