

ROBO ADVISORY SERVICE IN INDIA

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Abstract

This research paper will focus on the impact of Robo advisors on Traditional investment advisors in the near future with respect to their job stability in India. Robo advisors, a technology that has created a collaboration between both Finance and Technology, this has created the concept Fin Tech across globe. This paper will also primarily focus on the benefit of Robo advisory for the middle income investors in India. The data is collected through a questionnaire from the investment managers from Madurai which is our geographical area of study (Sample Size of 212). From the analysis of the data received, we have found that the performance/ investment return enhancement is not only the major reason for the middle income investors to use the Robo advisors but also other factors such as the lower dependency of human assistance or interference, time saving, unbiased decision making also affects the investor to prefer the Robo advisory services. The job stability of the Traditional investment manager is still however under doubt due to many unique that a Robo advisory service provides at the same time we must consider the factors such as PDM factors which act as a limitation to Robo advisors in order to form a conclusion. The study is being limited to the middle income investors in India, as Indian economy is one of the fastest growing in the world, where the middle income group happens to be the major contributor of the country's GDP.

Keywords: *Robo advisors, Traditional investment manager, Fin Tech, Psychological Decision Making.*

I. Introduction

Investment decision making is always one of the most crucial parts of the whole process of wealth management and maximization. This process involves consideration of various major factors such as the investors risk taking ability, asset allocation preferences etc. Furthermore, one other key factor that plays a major role in a successful investment plan is the ability and knowledge of the investment manager to make the most appropriate unbiased decision for each of their clients. However, recognizing the fact that the possibility of manual errors occurrence and the limited knowledge in one or the other areas due to the human capabilities along with the high advisory fees charged by these Traditional Investment managers acts as a barrier to an effective investment planning and process. Robo Advisory is the new major upgradation in the finance industry, it acts as a wide safety blanket cover against all possible manual errors or ignorance that could occur in the process. In this paper, we will be providing a clear view regarding the benefits of Robo advisory service to the middle income investors as they are the group that struggles between the high expectation on their minimum investment and the high cost of achieving their expectations in terms of advisory fee along with the problem of minimum investment requirement, we will be examining whether Robo advisors will be able to help them overcome their limitations. This paper will also address the doubt of whether Robo advisors with such high efficiency will be able to replace the jobs of the traditional investment advisors considering there are a few aspects like the psychological assistance or support that a client requires as a basic service requirement in order to address their needs and questions in terms of customization according to their ethical values, family background etc.

II. Review of Literature:

a) How traditional advisors can adjust to Robo advisors:

The essential concepts of this article is adjusting to Robo advisory in reality and comparison of traditional and modern theory, it also talks about the concept of Robo shield and effective ways to match/improve financial business. advisors may continue to attract the clients is by explaining them all the services, reducing some of their fees, continuing to offer sophisticated tools and models, and meeting with clients face to face. One can never underestimate the value of building up strong relationships, especially when an investor has a question about their portfolio or concerns about their financial future and wants it answered immediately; it's a human advisor, not an online program that will be there for them. Furthermore it also explains about the consequences and the steps to mitigate such negative consequences such as ; If advisors want to guard their businesses against competition from Robo advisors, they may need to reduce their fees, increase their use of technology and provide more specialized and personal services. They should also consider utilizing one of the automated advisors for advisors to supplement their services and gather clients who could be affluent in the future. (LESLIE, 2018)

b) Comparison between Traditional Investors and Robo Advisors:

In this paper, they have given more insights about the emergence of Robo advisors, their passive market access (implications), the cost efficiency of the Robo - advisors. They have detailed about the passive investing and its advantages. A detailed explanation about the cost efficiency, cost incurred on the implementation of the Robo advisors. The main research gap that is found is the impact of the Robo advisors emergence on traditional investment advisors in this paper they have concentrated more on cost efficiency of Robo advisors but, did not concentrate on any particular group of investors. The research was conducted in the USA. (Rohner & Uhl, 2018)

c) Indian middle income investor's investment pattern in specific to Nagpur:

In this research paper the middle class households in Nagpur is classified based on their age, income, asset choices and their purpose of investment. A survey that is taken in the middle class households in Nagpur has shown that the middle income investor have five preferences as an investment option. The major investment options were Bank deposits, Life insurance, small saving schemes such as public provident fund, shares in mutual funds and real estates. The income of these investors were ranging from Rs.90,000 to Rs. 1000000 per annum. In this paper the research gap is that, they did not concentrate on which type advisors advised them regarding the investment decisions. The main purpose for investment by these middle income investors were savings precisely in Fixed income bearing options, followed by Life insurance along with high preference given towards the tax benefits derived out of different types/options of investments.18% of the respondents invested only for tax benefit purpose,31% of households have increased their savings as the income has increased. It is reported that every year 60% of the investors changed their investment decisions due to change in their income and preferences. (Samudra & Burghate, 2012)

d) Introduction of Robo Advisors:

The functions of Robo advisors in the process of asset management is being explained in this paper. The Robo advisors perform online digital financial analysis and advice with respect to asset allocation and the rate of diversification which is required with respect to each individual investor's requirement. The Robo advisory process involves initial investor's screening, implementation of investment strategies along with monitoring and evaluation of the strategies. It focuses on Robo advisors in the management of Exchange Traded Funds (ETFs). This paper has also given insights about the fast growing Robo advisory landscape

on an international scale. Robo advisors is the fast growing application of financial technology solutions to asset and wealth management, digital client on boarding is probably the most crucial step in this Robo advisory process, However, it is also an extremely convenient and efficient function. In the USA Robo-advisor star-ups AuM saw an 8- fold increase in recent years on the back some retirement savings shifting to Robo advisory accounts. Millennials were among the first Robo advisors clients. Cost advantages have been creating significant momentum for Robo advice. (Kaya, 2017)

e) Implementation of Robo-Advisors Tools for Different Risk Attitude Investment Decisions

The research is about machine learning in financial industry such as Robo advisors by explain the basic functionality of the Robo advisors based on the analysis most popular financial services such as betterment, future advisors and wealth front. The functionality is formulated as a list of critical features and describes high level architecture design of a general Robo advisors tool. The Markowitz model prepared as proof of concept of a Robo advisors application for investors with different attitudes to risks. The results of the investigation proposed data processing atomization from open sources of crypto currencies as the top trend now a days. Machine learning shows innovative way to develop various areas of the financial industry. Also gives new life to the old tools which helps the investors to invest and to trade more using the Robo advisors. The implemented proof of concept of the Robo advisors application for investment portfolio formation using financial instruments under adverse risk attitude and risk seeking behaviour of the investor. Even it is not a young idea but yet it is a still developing idea in the financial industry, these financial and technology innovation have to handle the personal data in a very careful manner and also should prevent them from fraudulent act. (Oleksii Ivanov, June 2018)

III. Research design:

Scope of study:

The scope of this research work is focused toward the analysis of impact of Robo advisors on the middle income investment group and the benefits of the Robo advisory services in specific to feedback and opinion of the investment advisors in Madurai, Tamil Nadu, and India. In consideration of the time frame for the next 5 years (Regarding the impact of the Robo Advisors on middle income investors).

Statement of the problem:

Potentiality of an Investment manager plays a key role in the effectiveness and efficiency of the particular portfolio. There is always a change of occurrence of manual errors and decision manipulation due to psychological factors that will majorly affect the investment decision of an investor and also the Cost of investment management also plays a key role in the investment pattern or decision of a middle income investor. Thus in this project we are trying to examine the benefits of the Robo advisors to the middle income investors and the impact of it on the traditional financial investment managers job stability with respect to their competency in terms the manual skills o vs. the advanced sophisticated algorithms use by the Robo Advisors and will it actually outperform the Traditional advisors in the near future.

Objective of the study:

1. Impact of Robo advisors on traditional investment managers with respect to their job stability in the future.
2. Understanding the benefits of Robo advisors in the process of Financial investment decision making and investment for the middle income investors Madurai, Tamilnadu , India.

Source of data:

The data that has been used for this study is primary in nature.

We have collected the required information through questionnaires. Our respondents for the study were the Traditional Financial investment managers in Madurai, Tamil Nadu, India. The size of the sample was 200 respondents.

The data collected is qualitative in nature and has been converted to quantitative form for the purpose of analysis (POINTS BASIS)

Tools used in the Data analysis process are as follows:

- a) percentage representation
- b) Highest and Lowest observations
- c) Chi-Square Test

Hypothesis:

H0- The reason for selecting the Robo advisor over the Traditional portfolio managers for the middle income investors is NOT only the benefit of performance/investment return enhancement.

H1-. The reason for selecting the Robo advisor over the Traditional portfolio managers for the middle income investors is the only benefit of performance/investment return enhancement.

Limitations of the study:

1. This study will be applicable only to the middle income investment group and not the other income groups of the society.
2. The study limits its regional scope only to the extent of one city in India (Madurai)
3. The analysis and conclusions provided in this research is only applicable for a specific time period - the next 5 years.

Expected outcomes:

- From the analysis of data acquired from the investment managers , we expect that there will be an increase in the number of investors from the middle income group with a wide spread of use of the Robo advisory services in the near future
- Furthermore, it is expected that the Robo advisors will only partially take over the position of the current traditional advisors even in the near future as there is always a wide scope for human intervention in the investment decision making for an individual or institution in terms of customization and personal ethical requirements.

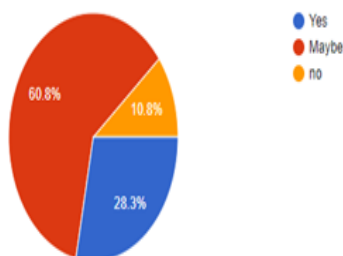
Research gap:

The impact of Robo advisors was limited only to the region of FINLAND's financial markets. The benefits of Robo Advisors in specific to middle income investment group in India were not specified. Effect of Robo Advisors on the traditional investment managers in the present and the near future of 5-10 years in India were not specifically mentioned.

IV. Data Analysis and Interpretations:

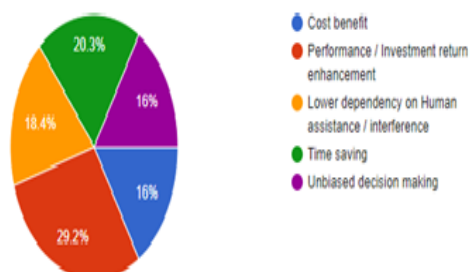
Do you think Robo advisory will take over the position of traditional portfolio managers in the near future(next 5 years)

212 responses



what is that one unique factors that will make the Robo advisers have an edge over/take over the position of traditional portfolio managers?

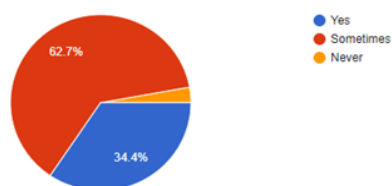
212 responses



From the above we have interpreted that most of the investors are in favour of the opinion that there maybe a job wipeout of the traditional investment managers by the Robo adviors,Mostly due to the factors of performance enhancement or in other words increase in the expected returns earned through opting for Robo advisory services through its use of combinations sophesticated algorithmus to anlyse the various investment options in order to derive the most optimal asset allocation strategy inaccordance with the Objectives of the investors, Furthurmore it elimiantes the probaility of occurance of manual error and misunderstanding regarding a particular investment desion or process ,This in turn efficiently reduced the time spent on a particular investment in terms of error detection and correction and improves the accuracy and this aspect of time saving will be the second most important advantage of Robo advisors over the Traditional investment managers ,followed by the aspect of Cost efficient as this in an one time investment and not a recurring cost, like the advisory fee charged by the investment managers on a continual basis and will increase year to year due to the factor of inflation. This limitation is effectively overcome by the Robo advisory services.

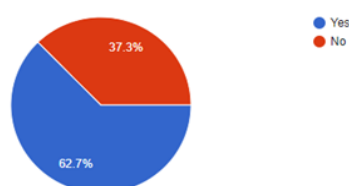
Do you think psychological aspects or needs of an investor(specifically Indian investors) plays a significant role in forming their financial portfolio?

212 responses



If yes, do you think psychological decision making aspect which is of great importance among the Indian investors will act as a drawback of the Robo advisers growth in the country/city.

209 responses

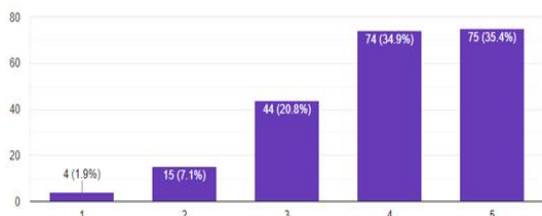


From the data shown above we can understand the prospective of the investment managers regarding the role of psychological aspect of the investor in the investment decision making process. only 34.4% of them think that this aspect of psychology plays a vital role in the decision making process , However the vouch against this aspect not being a part of the decision making process are simply 2.8% of the sample (212).The majority of them suggest that only sometimes this psychological aspect takes a significant space in decisions taken by the investor .Despite majority of them (62.7%) suggesting that psychological not always plays a major role,62.7% of our investment managers out of 212 of them think that the psychological impact of a investor on his decision making process will act as a limitation to the service provided by the Robo advisory

an gives the traditional investors an edge above the Robo Advisory but 37.3% do not support this conclusion/opinion

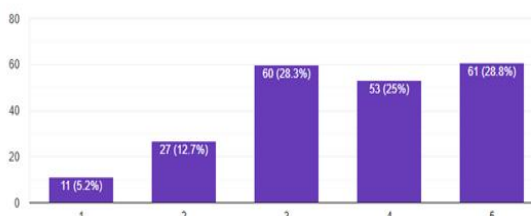
What is the level of Confidentiality maintained by the Robo advisory services with respect to the clients's information?(from a scale of 1 to 5)

212 responses



How reliable do you think are the decisions made by the Robo advisory in terms of market analysis and investors portfolio asset allocation keeping in mind their investment objectives?(from a scale of 1 to 5)

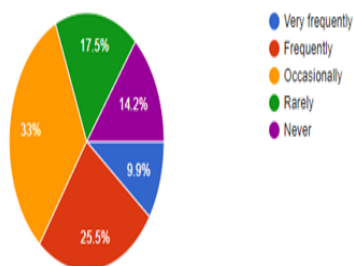
212 responses



Confidentiality and Reliably plays a key role in the Finance industry be it in investment or any other sector of finance , by way of interpreting the above data we can say that there is a high scope of Confidentiality in Robo advisors due to the fact of low human interruption and high security access. In the aspect of reliability there is a still a dilemma regarding its surety towards the reliability provided through Advisors may be due to its infant stage it is experiencing and not all securities might undergo an appropriate analyses and the process might still have a few glitches in terms of its operations.

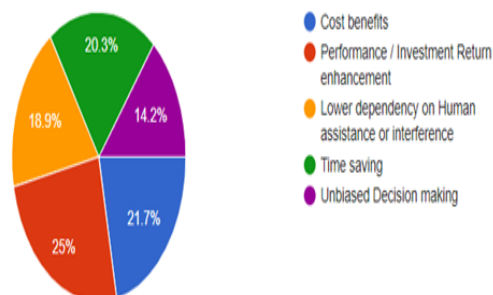
Have ever received an request from a client to use Robo advisory service for their investment or have you ever been influenced by your competitors to use the technology?

212 responses



What do you think is the main objective of the above specified income group to select the Robo advisory service?

212 responses

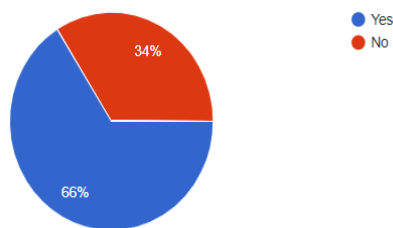


The above interpretation describes about how well aware and willing are the clients towards a change in their financial planning system, majority of the population (32%) are quite willing for an up gradation but don't exercise it very frequently. However, the second major set of people consisting of (25.5%) very frequently approach their investment management team for the use of Robo advisory service. Hence there are more than 50% of the population that is willing to move into Robo advisory service, majorly for the benefit of performance enhancement followed by the advantage of cost benefit which is supported by 25% and 21.7% of the sample respectively, the other factors closely share 50% of the benefit preference .

The below chart proves that 66% of the sample (investment managers support the use of Robo advisory for middle income investors)

Do you think middle income investors will benefit from the use of Robo advisory service (in your personal opinion)?

212 responses



Chi-Square testing:

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	3.377 ^a	4	.497
Likelihood Ratio	3.366	4	.499
Linear-by-Linear Association	.158	1	.691
N of Valid Cases	212		

a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 10.19.

Advantages	Count	Middleincomepreference		Total
		Yes	No	
Cost benefits		26	20	46
Performance / investment return enhancement		39	14	53
Lower dependency on human assistance or interference		27	13	40
Time saving		29	14	43
Unbiased decision making		19	11	30
Total		140	72	212

The test hence proves that HO (The null hypothesis should be accepted)-The reason for selecting the Robo advisor over the Traditional portfolio managers for the middle income investors is NOT only the benefit of performance/investment return enhancement. The other beneficial factors also form as a part of the reasons for selection criteria.

The reason for accepting HO is that the P value is above 0.05; P=0.3

V. Findings and suggestions:

In this research paper we have found that there is an positive recommendation of Robo advisors for the middle income investors by the traditional investment managers (66%) mainly due to various benefits such as lower advisory fee which will create a higher portion of returns of the investments for the investor lit will also help in taking unbiased decisions towards the asset allocation as this middle income group of people are somewhat sensitive towards the psychological factors that influences their Investment decisions and the act of manual errors and intentional or unintentional bias towards a person due to personal issues can also be overcome as the Robo advisory service requires a Low level of human interference in the investments of the clients. There is however a major disadvantage in the use of Robo advisory service, the Psychological factors that influence a investors behaviour and the need of human assistance in terms of providing customized suggestions to the clients. We suggest that based on the above available information that the awareness about the concept of Robo advisory must be enhanced in our country specifically in our scope of study (The investment managers in Madurai) as it will help in developing a stronger opinion or suggestions with respect to assisting their clients in the investment decision making and it will in turn create a new platform for investments in the near future.

VI. Conclusion:

There is always a scope for improvement in any activity performed in all the field. Robo advisory is one big step towards improvement in the field of investment management. It is one of the most highly sophisticated technology used in the field of investment management. As per our study, middle income investors would be the group of people who would benefit the most out of this Robo advisory service as their highly predicted and limited income can be invested in the most effective asset allocation combination available with several bonus benefits such as time saving process, unbiased decision given, cost saving etc. The Robo advisory service is expected to take over the job of the Traditional financial investment managers in the near future but some factors that make traditional managers have an upper hand above the Robo advisors are psychological influence on decision making factor, the need for human assistance for better understanding of the process by the clients and to fulfil their customised requirements especially in terms of ethical requirements.

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