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Robo-Advisory
in the securities market

A guide to opportunity assessment and implementation

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Introduction

Robo-advisors in today's known form occurred in the UK in 2008 for the first time and provided customers with a simple and inexpensive way to invest money. Since their market entry, Robo-advisors have developed rapidly, currently affecting the financial sector's securities business, more specifically:

- In 2018, of the 800,000 new DIY investment accounts opened in the year to the end of September, one in three were opened with one of the UK's main robo-advisors, including Nutmeg and Moneyfarm (Source: FT, November 2018)
- The number of DIY investment accounts – including robo and platform customers – rose to 4.8m over the year to September, an increase of 22 percent
- The volume of assets in the DIY investing market, where customers pick and choose investments without the help of a financial adviser, grew to £224bn over the 12 months to September and a 15.4 percent increase over the year

In order to participate in the market growth and to be able to remain competitive in the securities business, banks incrementally cooperate with FinTechs to ensure the implementation of their own robo-advisors. However, for a successful implementation or further development, some key considerations must be made.

This white paper addresses all decision-makers in the securities business from banks to investment service providers, and addresses the following two questions:

- ***Firstly, how should robo-Advisors be introduced for the first time?***
- ***Secondly, how could existing robo-advisors success be evaluated?***

Robo-Advisor

The term robo-advisor is not consistently defined in literature. However, in the context of this paper we consider robo-advisory to be digital and rule-based securities advising, minimising the necessary human intervention. Robo-advisors can be considered to focus on investment advice as well as asset management. The robo-advisors currently operating within the market mainly offer asset management services, and are often referred to as digital asset managers. Due to the high degree of automation and the mapping of portfolios by means of cost-efficient Exchange Traded Funds (ETFs), robo-advisors can offer their services within considerably better developed conditions than traditional asset management companies.

ETF

Exchange Traded Funds (ETFs) are passively managed exchange-traded funds that follow a performance index. The ETFs can be based on national or international stock indices, commodity and real estate indices as well as bond indices.

Background

For more than 10 years, the stock markets have showng an almost constant growth curve. The sustained stock market development, combined with a lack of investment alternatives, has led many private investors to invest their money in securities. Over this period of economic expansion, the quality of the products and services offered by banks was of low importance due to a lack of alternatives. Driven by continuously increasing share prices, banks were actively giving generic investment advice, paired with traditionally expensive products, leading to steadily increasing securities revenues.

However, more and more innovative and agile FinTechs are entering the securities business and are consequently challenging established financial institutions with their own digital product offerings. Robo-advisory is becoming increasingly prominent and thus being mentioned as an investment product in various news and media channels.

The formula for success concerning robo-advisors focuses on transparent, cost-effective - and above all - digital product offerings. Robo-advisors offer their customers intuitive and easy-to-understand digital asset management by providing an exclusively digital advisory process. The portfolio is derived by using a risk profiling process, and is usually mapped by the robo-advisor via a cost-effective ETF portfolio. This approach contrasts considerably with the banks' relatively opaque, expensive and non-digital securities products.

In order to compete effectively with FinTechs, banks increasingly pursue cooperation agreements with FinTechs, and offer their own customers robo-advisors in the form of white-label solutions. The benefit of this approach is that white-label solutions can be implemented much faster than in-house developments as they are designed upon the existing expertise of FinTechs. Additionally, many FinTechs have also expanded their business model to include cooperation agreements with banks, with some focusing exclusively on this.

Offering a robo-advisor itself is no sure formula for success for banks. The robo-advisors offered by banks in cooperation with FinTechs differ only slightly from sole FinTech offerings, and are significantly more expensive than FinTechs on average -positioned as niche products without a strategy in place. Consequently, the probability of a sustainable product success rate is low.

In order to maximise the chances of success, banks must deal with the individual institutional challenges of robo-advisor implementation and create the strategic/organisational framework for the digitalisation of securities advising.

White-Label

White-label products are characterised by the fact that they offer an already existing and marketed product under different names or brands. Normally, the original developer of the product remains separated from and unaffiliated to the offering. By doing so, it is possible to sell a product via various distribution channels and markets with relative ease.

Key challenges and considerations

Many banks still process most of their securities business by means of traditional advice from securities specialists. Digital channels (in terms of self-service offerings) often only exist for the non-advisory aspect of business. Implementing a robo-advisor, the original advising business concerning securities can be digitalised for the first time. The main challenges of such an implementation project lie in the following context:

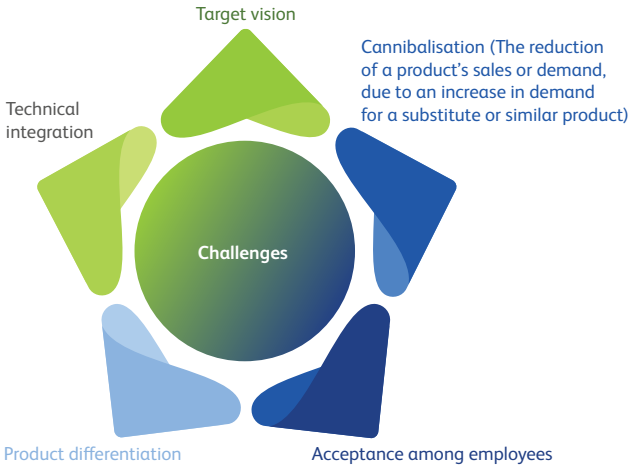

Figure 1: Challenges of implementing/introducing a robo-advisor

The key challenge of introducing a robo-advisor is to develop a clear target vision for the securities business. The robo-advisor does not equal the introduction of a new product, but rather the beginning of the digitalisation of the advising business and thereby also a profound adjustment of the business model. This means the bank must deal with the questions; which distribution types (execution only, investment advice, asset management) should be offered in the future, how the distribution channels are to be linked, and how coexistence between man and machine can take place? Only if the target vision is defined precisely, the role of the robo-advisor (and therefore the securities advisor) will become clear.

The introduction of a robo-advisor is inevitably paralleled by fears in management of possible cannibalisation effects. On the one hand, high earnings targets are set for the securities business to compensate the low income from interests. On the other hand, the margin of a robo-advisor is significantly lower than the margin of traditional securities products. The response of the sales management is to integrate the robo-advisor into the marketing control with care, and to carry out external marketing in a controlled manner.

Overcoming these cannibalisation fears in management is critical to success. A clear and well-communicated vision and support from top management helps to address this challenge and to embed the robo-advisor in the securities business sustainably.

More significant than the management's fears of cannibalisation are the security advisors' existential fears that arise due to the introduction of a robo-advisor and the associated lack of acceptance of the solution. The advisors become sceptical that digital tools such as robo-advisors will question their position in the securities business value chain.

As many clients maintain long-term and trusting relationships with their advisors, it is of utmost importance to convince the advisors that the robo-advisors bring additional value. Securities advising is not possible without the advisors, not only in current terms but in the future too.However, this role must be reconsidered in regard to the relationship between man and machine - undoubtedly a major challenge for banks and asset managers. A possible scenario for the future is for advisors to develop into solely relationship managers, while the robo-advisor covers all the technical aspects.

Another challenge is to clearly differentiate one's own product from the competition. Many robo-advisors from banks differ very little from the offers of FinTechs for instance, profiling, asset allocation and financial products are all typically similar. The only perceived difference for the customer is price. Much to the displeasure of banks, in order to achieve justifiable margins they must offer their robo-advisory services at a much higher price on average than most FinTechs. Consequently, customers prefer to give their money to the original provider (FinTech) instead of a replica developed by a bank. Therefore, it is crucial for banks to differentiate their own robo-advisors from FinTech products in a way that adds value and is noticeable to the end client.

The introduction of a robo-advisor is accompanied by technical challenges. For instance, in a case where the robo-advisor is implemented with an external partner (instead of in-house development), the degree of integration within the bank's existing IT systems must be determined clearly. Although a deep integration leads to a significantly optimised customer experience and more efficient processes, it also results in considerably longer project lifetimes, costs, risks and a higher dependency on the supplier.

Implementation of a robo-advisor

Banks have recognised the fundamental necessity of digitalising securities advising in regards to a self-service offering and are starting the digitalisation process with the introduction of robo-advisory services for asset management. Since the implementation should happen as quickly as possible to avoid significant IT impact, an in-house development or extension of traditional asset management by a digital channel is often not an option. The FinTech market is broad, considering the fact that many firms already successfully offer white-label robo-advisory solutions in the industry.

However, it is often assumed that robo-advisory services can be introduced as a new product within a lean implementation project. This may apply to the provision and connection of the technical platform, but not to the definition of the necessary strategic and organisational framework required.

For ensuring the sustainable success of a robo-advisor, it is crucial to define the strategic framework conditions first and commence the robo-advisory implementation in that context.

Strategic framework/parameters

Historically, the banks' securities business is defined by complex advising processes, extensive financial product portfolios and a rigorous sales management focused on network marketing. In this network, the advisor leverages an outstanding position as their advisory services have a significant influence on the success and quality of the securities business. In order to successfully place a robo-advisor within the market, the robo-advisor should not be regarded as a product, but as an enabler to the securities business. The strategic framework parameters must be defined prior to the implementation. Three crucial questions must be addressed during that stage:

- Which forms of distribution will be used to implement the securities business in the future?
- How should analogue and digital distribution channels interact?
- What should the future role of the (human) securities advisor look like?

Regarding securities, banks, as a basis, offer three different forms of distribution; execution only, investment advice, and asset management. Prior to the start of the digitalisation of the securities business, the bank needs to make two fundamental decisions. Firstly, it is necessary to determine which distribution forms the bank intends to use in the future for its securities business, and secondly, digitalise it. This is crucial, since the complexity of such a project is greatly increased by the digitalisation of the investment advice service, in terms of a self-service offering by comparison to asset management. The fundamental question of whether investment advice should be continuously offered in the future, or whether the entire advising business should be subsumed by asset management, is especially interesting. The latter will enable the securities business to be implemented much more efficiently, as it will centralise the investment decision, generate returns free of subsidies, and create less documentation obligations than the investment advice process. In addition, it is necessary to determine how the possible duplication of products in asset management will be dealt with once the robo-advisor has been implemented.

Most banks offer two asset management services post introduction of a robo-advisor – traditional asset management and digital asset management, provided by the newly implemented robo-advisor. If the traditional form of asset management is to be continued, a clear product differentiation is essential. If asset management is to be consolidated in the future, a consolidation strategy should be developed at the time when the robo-advisor is introduced.

In addition to the definition of future sales forms, the interaction between the traditional and the digital sales channel must be defined. The area of conflict ranges from two independently offered sales channels, to an omnichannel approach, in which the customer can switch between the defined channels as and when needed, i.e. advisory begins online and is concluded together with the securities advisor. However, this significantly increases the requirements for the technical integration of the robo-advisor into the core banking systems and requires significant adjustments to the pre-existing sales process to ensure compatibility.

The implementation of a robo-advisor will significantly change the securities advisor's profile. So far, the advisor has been responsible for making asset allocation decisions and buying / selling securities together with a customer. In the future, the securities advisor will be released from these tasks, as the robo-advisor handles the entirety of the technical side, from risk profiling and the derivation of asset allocation, to the purchase / sale of financial products. Consequently, the role of the advisers must be redefined. This is important to prevent a possible threat to employment, and thus rejection of the robo-advisor implementation plans by the advisers at an early stage.

Robo-advisor specification

Figure 2: Dimensions for the specification of the robo-advisor in the context of the overall securities strategy

Once the strategic framework conditions have been set, the specification of the robo-advisor in terms of target group, financial ratios, sales management, consulting process and integration depth is carried out.

When determining the target group, age, IT affinity, financial circumstances and expected service level of the customers should specifically be considered. The target group for the robo-advisory service should be distinguished from the target groups of other securities products, to ensure an optimal customer approach.

The financial ratios are made up of the expectations regarding the definition of volume and price. Volume planning should be based on the overall portfolio volume development for the securities business, as well as the relative allocation of the individual sales forms (execution only, investment advice and asset management). For the definition of volume of robo-advisors, the integration with stationary sales, as well as the scope of the marketing measures, are critical to success. The price of the robo-advisor consists of the financial product costs and the service fee for the financial portfolio management, including securities account management. Externally, the competitors' prices and the prices of comparable institutions with similar target groups are to be evaluated. Internally, the price needs to be considered in the context of the existing financial product portfolio. Due to the immense pressure of competition, a pricing approach in line with the market often results in the target margin of classic securities products not being achieved.

In contrast to FinTechs, the relationship between advisor and customer is based on a trusting advisor-customer relationship. In order to integrate the robo-advisor into such a structure in a useful way, the securities advisors must be incentivised regarding the robo-advisor's sales – the robo-advisor has to be part of the sales control.

The robo-advisory process mainly consists of five sequential process steps. Both distribution and regulatory aspects must be considered when specifying the individual process steps. It is recommended to amalgamate the advisory process of the robo-advisor manually to the advisory process of traditional asset management advice from both perspectives, in order to avoid different securities advising processes, depending on the channel.

The onboarding process involves identifying the customer according to the KYC (Know-Your-Customer) procedures. The main question in this respect is who the customer's contractual partner is. As the customer relationship is an essential asset of the bank, the customer should close the financial portfolio contract directly with the bank, and not with the robo-advisor.

Risk profiling determines the risk-bearing capacity and propensity of the customer. This is normally processed using questions that are easy to understand. Questions about behavioural finance are typically becoming increasingly popular. Therefore, the customer's risk profile is determined by 'softer' questions about hypothetical decision-making situations. In addition to risk profiling, the potential customer should also be asked about their investment objectives and needs, which should be considered in the context of personal risk profiling.

The product universe defines the financial products with which the different portfolios are replicated. Most robo-advisors exclusively offer ETFs due to the favourable cost structure of around 20 basis points. Only a few robo-advisors additionally mix the portfolios with actively managed funds or individual securities. The product universe should always be defined by the bank.

A technical aspect is the depth of integration of the robo-advisor into the bank's IT architecture. The depth of integration describes the degree of integration of the new application within the core banking system, or within other relevant systems. The extent of the integration defines the area of conflict between the scope of functions and the implementation period. The deeper the integration, the higher the functional scope, but the more complex and time-consuming the implementation. Here, the main question is whether the securities accounts should be managed by the bank or an external custodian bank.

Evaluation criteria for provider selection

If a white-label solution is used, the criteria of the strategic framework and the specification of the robo-advisor are defined for the evaluation and the subsequent selection of the provider. The criteria should be grouped and weighted according to their relevance. A possible grouping can be achieved by looking into the following dimensions:

Functional dimensions	• How is the advising process mapped in the standard (onboarding, risk profiling, asset allocation, product universe)? • What degree of individualisation is possible? • What analysis tools are available? Can the provider offer customer service (1st level support)?
Technical dimensions	• What the degree of integration into the existing IT architecture is possible? • At which location does the data storage take place? Which data security measures are implemented? • What room for further development does the platform offer?
Profitability	• What are the initial implementation costs? • What running costs are to be expected (platform and custodian bank costs, minimum fees, fixed costs, etc.)? • What does the overall business case look like? What is the sales volume required to break even?
Provider-related dimensions	• What productive references and experiences does the provider have with outsourcing? • Which investors back the provider? How sustainable is the provider's business case? • What know-how does the management have? Does the provider have a BaFin licence as a financial portfolio manager?

Figure 3: Evaluation dimensions for provider selection

Functional specification

The basis for the evaluation of the functionality is the defined advising process. The extent to which the defined requirements are met by possible providers should be evaluated separately for each process step. The key factor here is the degree of individualisation of the advisory process. For instance, is it possible to use an individual risk profiling approach, or is it necessary to adopt the provider's profiling approach? A high degree of individualisation of the solution enables the bank to use the new digital advising process in line with the existing analogue process and allows flexible adjustments for the future. In order to interlock robo-advisors and stationary sales, it must be ensured that the provider also offers special consultation access points which allow the securities advisors and customers to use the robo-advisors together.

Technical specification

Considering technical aspects, such as data protection and the integration of the solution into the bank's existing systems, is vital to the success of the technical specification. In regard to data protection, it is necessary to determine on which IT infrastructure the robo-advisor service will be operating. Both the location of the data storage and the location of the data access are relevant and must be adaptable to the needs and requirements of the bank. In general, banks expect data storage to be in the UK, and access only available from locations within Europe. Certifications or regular independent external audits, can certify the provider's compliance of security standards. In addition to security, the legally compliant handling of customer data must also be ensured.

When it comes to the technical integration of the solution, experience - or even existing interfaces between the provider and the bank's core banking system - banks must ensure diverse advantages during an implementation. An open architecture in terms of platform banking and the provision of programming interfaces and so-called APIs, gives third parties a simple and standardised connection. Such a technological basis offers the possibility of extending the service through third-party service providers.

Profitability

The challenge in evaluating profitability is that providers often have different cost structures and are thus not directly comparable with each other. In addition to the usual platform fees as a percentage of the assets under management, providers sometimes charge minimum fees and fixed service / maintenance fees. However, in other cases the implementation costs differ considerably, depending on the provider.

In order to establish comparability between providers, the evaluation must be carried out based on a business case. For the business case, the bank makes projections about the development of the custody account volume and the price for the end customer. Once these projections have been made, the predicted revenues can be compared with the costs of the providers. In the case that securities accounts are held by an external custodian bank, these costs must also be considered in the projection. Since minimum fees for individual providers can significantly influence the business case, the case of low volumes and various scenarios for volume development need to be calculated.

Provider-related specification

Lastly, the provider analysis will need to take place. The core of this analysis is to evaluate how competitive the provider is and how efficiently a potential implementation project can be carried out together with the provider.

The successful implementation of reference projects is probably the best indicator for a successful implementation. In this case, the provider is already familiar with the typical challenges, has already implemented best practices, and can demonstrate sufficient support for the sales strategy.

Other criteria include the accreditation of a financial portfolio manager, a proven history of years of successful market presence, financial stability and sustainability, and financially strong investors. Furthermore, the provider's cooperation partners also have an impact on the business model. For example, in the case of an external custodian bank being commissioned to manage the client portfolios, it is advantageous if the provider has already proposed or established a relationship with a cooperation partner.

Implementation of the robo-advisor

The considerations for strategic integration, the defined requirements for the supplier, and the evaluation grid, results in a framework, whereby the market for robo-advisors is viable to explore. This heterogeneous market can be divided into three segments.

1. Some of the robo-advisory providers only operate within the B2B market. These companies support banks and asset managers in developing and providing a robo-advisory service. As software developers, they do not directly make contact with the investor as an end customer.

2. Providers are operating in both the B2C and B2B markets. Many of these companies have originated their business model in the B2C market and are now expanding by offering white-label solutions for B2B clients.

3. The market for only B2C providers consists of FinTechs and digital solutions from established financial institutions. The development of these solutions is partly based on the state of the B2B market.

Provider selection is based on the previously defined evaluation criteria and should be carried out with a systematic process. The result of the multi-stage process is the decision for an appropriate cooperation partner for the implementation of a robo-advisor.

Roadmap

Figure 5: Introduction of a Robo-Advisor

Evaluation of existing Robo-Advisors

Many banks have already implemented their own robo-advisors as white-label or in-house developments. However, the success of these robo-advisors is by no means guaranteed. There are already first-hand examples of failed partnerships of FinTechs and banks on the market. Some commercial banks have also deliberately decided not to offer their own robo-advisors. In the case of robo-advisors which have been placed on the market by banks, it can also be assumed that some banks might face problems in acquiring enough volume, and thus operating profitably.

A reason for this is the strong competitive environment, both on the market, but also within the bank internally. On the market, robo-advisors compete with dynamic FinTechs, offering products with low margins, excellent customer service and high functionality. Internally, robo-advisors have to compete with high-margin competitors and old (focused on network marketing) distribution structures. In addition, the required service and comfort level for the customers and securities advisors cannot be achieved due to suboptimal IT integration.

It comes as no surprise that in this competitive environment robo-advisors fail to achieve their ambitious growth targets. The high market dynamics paired with the continuous technological progress make it necessary to regularly evaluate one's own robo-advisor in terms of securities strategy, and to identify fields of action.

Evaluation criteria

The evaluation of existing robo-advisors must take place in the following dimensions: target vision, financial key figures, sales control, customer usage and satisfaction, product design, technical integration and providers.

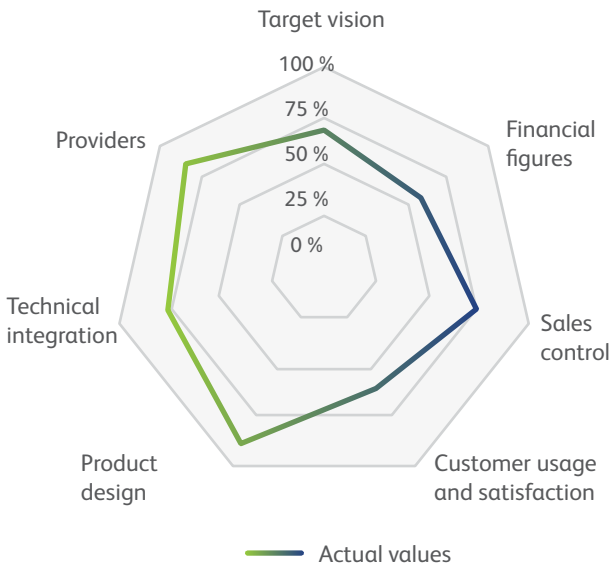

Figure 6: Evaluation criteria for existing robo-advisors

Target vision

As mentioned earlier in this paper, a conclusive target vision supported by top management represents the foundation for a sustainable process. Only when the robo-advisor is adequately integrated into the securities strategy of the bank is it possible to enhance further development. Additionally, the sustainability of the overall target vision and the specific consideration of the robo-advisor should be evaluated. On the other hand, it is also important to validate the communication and transparency of the proposed strategy within the organisation. The target vision needs to define the framework conditions for the specific design of the robo-advisor.

Financial figures

In the long term, the financial figures are the key measure for evaluating the robo-advisor's success. This includes key figures regarding the achieved volume, the achieved revenues and margins, but also the costs for the provision of the service itself. The evaluation is carried out as a comparison, with predicted values, or as a benchmark against the market. The financial ratios of the robo-advisor should also be compared with the rest of the bank's securities products.

Sales control

To ensure the sustainable acquisition of custody account volumes, the robo-advisor must be carefully considered within sales management. This includes the overall planning for the securities business, as well as the specific sales targets. Both nominal targets and the relative relationship to other control parameters must be evaluated. In addition to the control parameters, the way the targets are supported by marketing and training measures must also be evaluated. The acceptance of the robo-advisor by the securities advisors is also paramount in this dimension.

In banks with an intensive customer-advisor relationship, it is critical to success to ensure that the advisors regard the robo-advisor as a value adding activity, and thus recommend the service to customers alongside traditional product offerings, bearing in mind not to offer comparable or overlapping solutions.

Customer usage and satisfaction

Two preliminary questions to evaluate the success of a robo-advisor detail the customers general usage, and how satisfied they are with the solution. To answer the first question, information concerning customer characteristics must be evaluated. The information provided includes age, user behaviour, usage intensity, educational level, investment behavior (amount and time) as well as other aspects. In principle, the aim of gathering this information is to assess which group of customers use the robo-advisor in order to address comparable customers in a targeted way with regard to the product, or to align sales control appropriately. To answer the second question, the users of the product must be questioned directly in an online survey. In this context, customer satisfaction should be explored concerning the entire end-to-end process. This includes the initial approach to the product, the advising process, the closure, the reporting and the interaction between the securities advisor and robo-advisor. These results enable valuable conclusions to be drawn for further development of the solution.

Product design

In the context of the product design, the aim is to evaluate the degree to which the robo-advisor meets the customer needs and how the solution differentiates itself from the competition. The customer survey can be used to gain insights as to where in the process the robo-advisor should be optimised, in order to reflect the customer needs. Furthermore, the robo-advisor should be compared with competing products via benchmarking processes. In particular, it is important to assess the degree in which the robo-advisor differentiates itself from the competition, and which features are specific to the institution.

Technical integration

The degree of technical integration required is derived from the target vision. However, for long-term success, it is important that the robo-advisor is connected to the existing system landscape. This dimension evaluates how well the robo-advisor is integrated into the bank's existing systems. In this context, it is essential to establish to what extent media disruptions occur for customers (e.g. lack of single sign-on or missing assumptions of existing risk profiles). Another evaluation criterion is the integration of the custodian bank function, which is currently often outsourced to external custodian banks, creating additional complexity for the customer in terms of a second point of contact.

Providers

In many robo-advisory solutions, external providers are used for the financial portfolio management and in part for the custodian bank function too. Reliability, innovation and service quality are essential evaluation criteria for successful cooperation with the provider. This is essential if the robo-advisor's frontend is to be used for other securities products in the future (e.g. investment advice), the further development of the securities business depends significantly on the strength of the provider.

Options for action

The evaluation result is the basis for a purposeful optimisation of the existing robo-advisor solution. Three general options can be derived from the spectrum of possible actions, which can be implemented individually for each institution:

- Ongoing development of the existing solution
- Fundamental change regarding the existing solution
- Shutdown of the robo-advisor

In the presence of constantly changing customer requirements and market changes, further development of the existing solution is inevitable. By deepening the integration into the bank's systems, for example, the customer experience can be significantly optimised by building on already existing customer data.
When expanding the existing robo-advisor, the market-related developments, the institute-specific framework conditions and the innovation potential of the white-label provider must be taken into account. It is crucial that the robo-advisor is meaningfully integrated into the bank's securities strategy.

A fundamental modification of the existing robo-advisor solution must be considered if the existing white-label provider cannot implement essential requirements, or if the innovation potential for an expansion is missing. In these cases, the white-label provider could be replaced, or a separate solution could be developed. However, it should be established how the existing customer relationships should be handled. Customer custody accounts are often held with an external custodian bank and cannot be transferred without contractual adjustments.

The withdrawal without any alternative option from the robo-advisor business is an action up for questioning: The combination of demographically induced shifts in customer behavior, and the financial maturity of the digital natives' demand for digital solutions in the securities business. In the short term, a withdrawal might improve financial figures. However, this is at the cost of a weakening of competitiveness in the securities business. Digital asset management in the form of a robo-advisor can be regarded as a fundamental step in ensuring a sustainable digitalisation of the securities business.

Roadmap

Evaluation of existing Robo-Advisors

1 Define the evaluation criteria and carry out the evaluation

Target vision
- Consistent target vision supported by top management
- Sustainability of the target vision and integration of the robo-advisor
- Communication and transparency

Financial figures
- Volume, margin, revenues and costs
- Comparison regarding planning and benchmarking against the market
- Competitiveness, achieved market shares and relative participation in market growth
- Development of the robo-advisor in comparison to the rest of the offer in the securities consulting

Control
- Consideration within sales control
- Number of targets and relative ratio to other control variables
- Accompanying marketing and training measures
- Acceptance of the robo-advisor by securities advisors

Customer usage and satisfaction
- Age, user behaviour and intensity, level of education, investment behaviour
- Customer satisfaction throughout the end-to-end process

Product design
- Coverage of customer needs
- Differentiation from competition
- Consideration of individual institutional characteristics

Technical integration
- Level/degree (?) of integration depth as a function of target image
- Number and extent of media disruptions
- Integration of the depository bank function

Providers
- Reliability and service quality
- Innovative power
- Expenses

2 Options for action

- Expansion or intensified implementation of the existing solution
- Changing the cooperation partner or in-house development
- Withdrawal of the robo-advisor

Figure 7: Evaluation of existing Robo-Advisors

Future trends

From digital securities advising to digital asset management – technology trends, which can be observed in other areas of digital banking, are also finding their way into asset management. In this context already known innovations are being used:

- Voice Banking & AI – contactless, voice-based banking, which continuously improves the understanding, interpretation and prediction of customers' needs by using Artificial Intelligence (AI) in a self-learning manner.
- Digital Identities – central management, allocation and safe custody of uniquely assigned identities and corresponding collateral information.
- Blockchain infrastructures – substitutes for traditional and securities accounts as well as being the basis for trustworthy, highly efficient (business) transactions, especially in the area of digital identity or legally secure signatures.
- Open Banking APIs – flexible, rapidly deployable interface technologies that greatly simplify and accelerate interaction with other market participants or customers.
- Marketplaces (SaaS) – establishment and operation of a regulatory and trust-based framework to better serve "supply and demand".

The future development in the area of digital securities advising will probably show two different characteristics:

- On the one hand, there will be massive consolidation pressure among B2C providers, as customer acquisition costs (CAC) and customer lifetime value (CLV) can only be turned into a positive business model in larger organisations, by benefitting from the effect of economies of scale. In this context, the innovation potential of the resulting organisations, which will be exposed to similar competitive pressure as existing competitors in the non-digital market, appears questionable.
    - On the other hand, we believe that in the B2B segment, models will prevail, allowing customers easier access to software components and business processes. Due to the strategic advantage of platform-based structures it is expected that for the area of digital asset management, software-as-a-service (SaaS) marketplaces will emerge enabling corporate banking customers to implement a business process innovation or add new digital components to an existing process with a few simple steps.

Digitalizsation requires individualisation

Today's innovation still looks as follows: for each stage of digitalisation, the best solution for achieving pre-defined goals must be worked out from a variety of possible providers (internal and external) at first. In larger IT projects, various integration procedures and connections to different systems must be developed in order to integrate the corresponding components. These usually require an excessive amount of time, money and resources.

Marketplaces and ecosystems

The individualisation approach is contradicted by the logic of an SaaS marketplace, connecting different providers of subcomponents in advance via standardised interfaces ("APIs") and making them available to the respective users individually on demand. In this context, we shape the term "survival of the API-est", as we believe that in the future only those market participants will assume significant ecosystem roles and master their APIs. The API management systems used for this purpose control and regulate the connectivity between the providers and their services, with the corresponding consumers and customers. Therefore, from our experience, the success of a marketplace operation depends essentially on the effective use of APIs. The marketplace operator itself is usually only a provider of SaaS solutions in certain sub-segments – rather, it organises and orchestrates the market participants on the supply and demand side and provides the infrastructure for a successful development of the ecosystem to providers and consumers.

Start small to go big

From the customer's point of view, based on the collected data from the platform, a significant increase in efficiency in the areas of software selection and implementation can be assumed, since the necessary connections for the implementation of digitalised asset management are already available at platform level and can be provided with little effort. The establishment of a SaaS marketplace for digital wealth management also gives providers a high degree of flexibility regarding the design of their business model and the necessary infrastructure. It will be much more cost-effective to test certain innovations first in a smaller, defined target group, as the start-up costs for digital business models will be a fraction of today's usual project costs.

Once a competitor, now an ecosystem partner

From the platform operator's point of view, the strategic orientation is lucrative if it is possible to unite a relevant number of partners and customers on the marketplace and to facilitate simplified access to software components from different providers with the help of professional business process management.

The participation in such a SaaS market makes sense for software providers in case the reduced resource requirements for the acquisition of new customers are invested in further development of one' s own offering, strengthening the competitive position with respect to other providers with similar functional scope. Hence, making the provider attractive for the customers regarding price and/or functional scope. In order to establish such an ecosystem, significant investments by the marketplace operator and the SaaS providers are required to create the necessary technical and procedural prerequisites. The effort seems reasonable if the ability to innovate, speed and efficiency of innovation can be materially increased.


Technology
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About BearingPoint

BearingPoint is an independent management and technology consultancy with European roots and a global reach. The company operates in four units: Consulting, Solutions, Business Services, and Ventures. Consulting covers the advisory business; Solutions provides the tools for successful digital transformation, advanced analytics and regulatory requirements; Business Services provides managed services beyond SaaS; Ventures drives the financing and development of start-ups. BearingPoint's clients include many of the world's leading companies and organizations. The firm has a global consulting network with more than 10,000 people and supports clients in over 75 countries, engaging with them to achieve measurable and sustainable success.

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