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Robo Advisory Fintechs - Insights on Potential Business Models

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"Startups don't fail because they lack a product, they fail because they lack customers and a profitable business model." – *Steve Blank*

ABSTRACT
Changing customer expectations, Technology advancements transforming the wealth management industry that questions traditional method of business and operating models.

Robo/Digital advisory brings investments closer to the people, making them simpler and easily understandable. More than 250 players in the Indian market offering variants of this proposition. Firms that are surviving only or predominantly on product commissions from mutual funds offering need to re-think on their business model to sustain amidst of tough competition, cost and competition challenges.

Keywords: Robo Advisors, Digital Investing, Digital Investing Startups, Online Wealth Management, Online Personal Finance Advisory, Robo Advisory, Direct Mutual Funds, Mutual Fund investing, Certified Financial Planner, Advisor, Finance for Millennials

INTRODUCTION
As per NASSCOM report, in 2018 there were around 400 fintech companies operating in India. There is prediction that the revenue generated in India due to fintech companies will touch US$2.4 billion by 2020. Fintech – intersection of Finance and Technology, with an intention to get financial products and services closer to consumers in a smarter, simplified, convenient and cost-effective way. Robo/Digital advisory brings investments closer to the people, making them simpler and easily understandable. More than 250 players in the Indian market offering variants of this proposition. Let us focus on existing and potential business models of firms run on B2C model that provides automated investment advisory and execution services with no or less human intervention through online platforms and/or mobile applications to customers.

DIGITAL ADVISORY FINTECHS
Generation X, Millennials (Generation Y), and Generation Z are the new target audiences for the digital investing/wealth-management industry. Although the younger generation have concern on their finances and they are in great need for advice but they are largely ignored by the industry. This paved the way for mushrooming fintechs and rapidly gaining momentum with lots of experiments. Currently, Assets under management with these firms in India amounts to US$42 million (Start of 2019), expected to grow at CAGR 36.2 percent resulting in total amount of US$145 million by 2023.

*** Genartion X:** Born Between 1965-1979

Millennials/Generation Y: Born Between 1980-1994

Generation Z: Born Between 1995-2015

SELECT DIGITAL INVESTING FINTECHS
Select list of firms considered for observation are ArthaYantra, FundsIndia, Kuvera, Goalwise, Groww, Paytm, Orowealth, Fisdom, Tavaga and Wealthy.

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Operating Model	
➢ **Digital** **End-to-End aspects of advisory, investing/wealth management such as On-boarding (KYC), Planning, Execution, Monitoring are completely automated without human intervention**	➢ **Phygital approach** (Physical + Digital): End-to-End aspects of advisory, investing/wealth management such as On-boarding (KYC), Planning, Execution, Monitoring are completely automated without human intervention with an option to opt for physical support as Indians are used to physical assistance

Revenue Model			
Zero Fees	Commission	Fee	Fee & Commission
Zero fees/charges from customer advising direct scheme offerings (no fee funds)	Zero fees/charges from customer advising regular scheme offerings (trail fee based)	Flat fee or a percentage of Assets under Management on annual basis advising direct schemes (no fee funds)	Flat fee or a percentage of Assets under Management on annual basis advising regular schemes (trail fee based)

Product Offerings	
Traditional	**Conventional [Few firms]**
- Regular schemes (fee funds) **- Domestic Equities** **- Exchange Traded Funds** **- Insurance (Life)** **- Corporate Deposits** **- Bonds**	- Direct schemes (no commission funds) - National Pension Scheme (NPS) - International Equities - Digital Gold - Portfolio Management Services - Alternate Investment Funds (AIFs)

Service Offerings	
Traditional	**Conventional [Few Firms]**
- Online KYC **- Risk Profiling** **- Goal Planning** **- Transaction execution** **- Portfolio management** **- Periodic reporting** **- Regular Insights** **- Investor Education Program**	- Investment switch (Regular to Direct) - Tax filing (Residents and NRIs) - US Tax filing in India - Transaction execution - Portfolio management - Periodic reporting - Regular Insights - Investor Education Program

POTENTIAL BUSINESS MODEL

Ultimate purpose of digital advisory platforms is to offer low-cost investment services, avoiding human bias using rule-based investment decision. The target customers are tech savvy millennials, generation Y and generation Z with consume more and save less attitude, self-service/Do It Yourself (DIY) who are looking for

- ➢ Easy (Simple user interface)
- ➢ Transparency
- ➢ Convenience
- ➢ Fast
- ➢ Engaging contents

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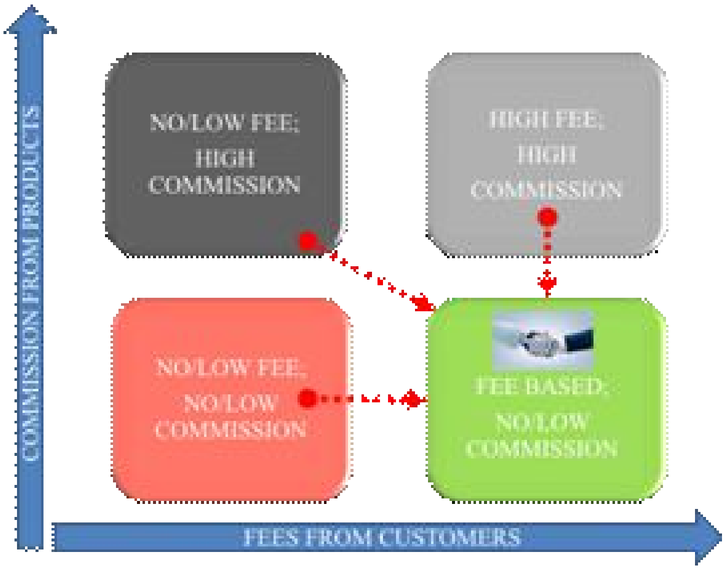
Most of the firms offer zero commission direct mutual funds for free – no transaction charges, account fees or any other hidden charges in digital mode. Firms offer value added services like Goal planning, alerts, portfolio rebalancing, portfolio reporting, goal tracking and enable switch to direct plans (from regular).

Given the fact, that the penetration level of mutual funds in India is low, there is sufficient room for different players to succeed. But it is also important to understand that sustaining solely on direct plans (no commission funds) without charging fees is not sustainable, unless the firms have a plan to monetize it. In addition, firms that are surviving only or predominantly on product commissions from mutual funds offering need to re-think on their business model to sustain amidst of tough competition.



Considering 4-5 years as average breakeven period, let us look at potential list of business model options available for firms to sustain

- ❖ Optimize Phygital approach to convince customers for Fee based advisory
- ❖ Strong customer focus with high service levels
- ❖ Diversify and Cross-sell Products (commission based)

Firms could leverage data analytics as average customer base ranges from 2 lakh to more than 12 lakh in order to stay focussed on customer needs to understand their complex changing needs and market innovations.

As the needs would move from simple to complex as the customers grow older, need for a dedicated physical advisor model is inevitable. Focus on critical value added services with high service levels that would help in convincing customers to pay for the services obtained. In addition, firms could also expand their product offerings beyond direct mutual funds schemes like loans, Insurance, Stock, Gold, Alternate Investment Funds, that fulfils needs of their customers that would also help in generating revenue that helps firms to sustain.

We could see strong direction for consolidation in this space - Mumbai-based digital platform Wealth Trust, which was earlier planning to shut down its shop, has now got a lease of life with Orowealth acquiring the firm. Smaller players with no clear business model will struggle to keep-up in the game.

CONCLUSION

Robo advisory firms secures their own positives low cost, convenient, easy, transparent and takes away human biases. However, on the flip side, experts are of the opinion that, robo advisory firms may not be effective for advanced services like tax and estate planning, real estate investment plans or multiple stage retirement planning. Further, a do-it-yourself (DIY) nature of robo-advisory may induce investors to book profits at short intervals or panic at the time when markets fall steeply or are very volatile which can derail them from achieving their long-term goals.

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In developed markets, hybrid robo advisors are becoming popular. This is because, over a period of time they have realised that customers need to talk to someone. Most robo advisors there now provide financial advisory services over the phone or via video chat as well for a fee that is based on the size of the customer's portfolio.

Given the low penetration level of financial products in India even among the educated, both robo advisors and human advisors can co-exist and are required. Since investment decisions are 80 per cent based on an investor's behaviour and 20 per cent based on a product, a robo platform will provide transactional convenience. In the long term, however, human advisors can help keep investors on the right path in their investment journey. There are definite segments of the society who still prefer a human advisory model and work the traditional way. One should account the fact that there is more to client needs than just numerical inputs to the system and this is where the human angle comes to the fore and that helps firms to devise plans to sustain and serve their customers.

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