

Growth of digital and robo-advisory platforms and their impact on the asset management industry

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Investment management and advisory businesses have evolved rapidly with the rapidly changing financial services industry, especially with the advent of [digital platforms](#) and social media. With investors looking increasingly at faster and simpler methods of wealth management, digital financial advisory and portfolio management services via robo-advisors have increased significantly, with investors keen to explore beyond traditional [wealth management services](#).

Robo-advisors are essentially digital platforms/applications that provide automated advisory solutions and [portfolio management services](#) based on computer algorithms. These platforms provide personalised investment advice and design portfolio services for their end users based on the financial data (assets, risk appetite, etc.) collected and fed into the algorithms. Such digitalised advisory services have increased in recent years due to the ease in functionality with less human interaction and lower fees than for traditional advisory and [brokerage services](#).

However, regulators are keen to assess the impact of these platforms and govern technological growth of the [financial services industry](#) to ensure the integrity of markets. According to the SEC's Office of Investor Education and Advocacy¹, investors should exercise caution and make informed decisions when engaging with robo-advisory platforms to manage their [financial portfolios](#). The Investor Bulletin released by the SEC highlights the following areas investors should focus on:

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The type of information requested by the robo-advisor to formulate investment recommendations

- The amount of human engagement and active live interaction the investor requires
- Fees and charges levied (including management and advisory fees)
- Investment guidelines and strategy followed by the robo-advisory platform
- Compliance with registration, disclosures and other regulatory requirements, which can be checked on the SEC's Investment Adviser Public Disclosure database

Regulators have imposed penalties and fines on robo-advisory service providers in recent years for failure to comply with disclosure requirements relating to performance data showcased to investors, providing misleading information to end investors and unlawful solicitation of customers via [social media](#).

It is imperative that individual investors conduct [due diligence](#) prior to engaging with robo-advisory platforms to ensure they follow a streamlined compliance and regulatory process as stipulated by the respective global and local regulatory bodies. Key areas of regulatory focus with respect to robo-advisors include the following:

- The process for review and approval of [marketing material](#) disseminated to end investors
- Regulatory disclosures provided on the platforms for prospective clients prior to engagement
- The implementation of adequate policies and procedures in relation to marketing and advertising guidelines under the Investment Advisers Act

With the financial universe's increasing engagement with social media, there has been a surge in customer solicitation by digital advisory platforms via paid bloggers who solicit through referrals. With marketing via social media now coming under regulatory scrutiny, the SEC formulated cash solicitation rules² that stipulates that [digital investment](#) advisory platforms making cash payments to bloggers for investor solicitation must have written solicitation agreements with the bloggers prior to engagement. These agreements should

mandate that the blogger make certain regulatory disclosures to the clients they intend to solicit and maintain a record of written acknowledgement from those clients.

Robo-advisory platforms are changing the financial and [wealth management industry](#), providing easy access to portfolio management, low management fees, and portfolios tailored via algorithms to satisfy diverse risk appetites. It is imperative, however, to keep in mind the type of products offered and the need for personalised interaction with investors, considering markets are volatile and are subject to geopolitical, environmental and a host of other factors.

Traditional financial [advisory services](#) tailor their investment methodology and product profile creation to the needs of retail or sophisticated investors who require human involvement when addressing their concerns and taking judgment calls when it comes to high-risk product offerings. With robo-advisory platforms limiting specialised services and the level of human interaction, asset managers in this space would need have robust procedures in place to handle the risks likely to arise from limited interaction with retail investors via applications, updating algorithms in line with market conditions and designing product offerings based on investor classification.

The investment advisory and management space is evolving in line with increasing demand for digital and social media engagement. While this provides ample opportunity for end investors to grow their financial portfolios and presents investment opportunities other than the traditional financial services offered, it is important to take informed decisions and be well versed with the dos and don'ts prior to availing oneself of digital advisory services. Such action would fully equip an investor to mitigate any market-related risks.

How Acuity Knowledge Partners can help:

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Sources:

¹ [SEC.gov | Investor Bulletin: Robo-Advisers](#)

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