

## Effectiveness of Robo-advisors in wealth management

Robo-advisors have transformed wealth management by offering automated financial planning with minimal human input. While they bring valuable efficiencies, questions remain about their effectiveness, and their limitations must be managed for successful implementation.

### Industry

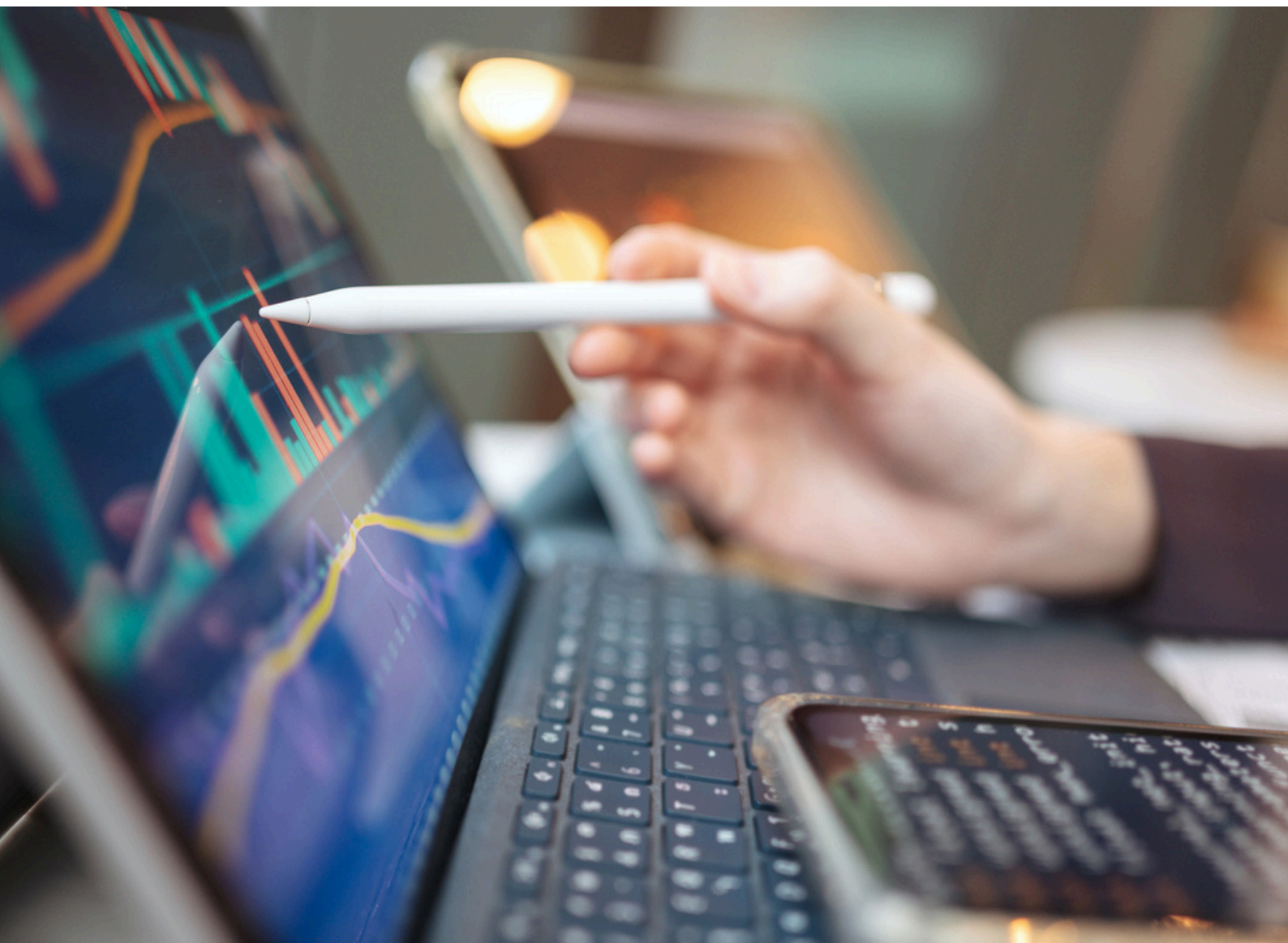


Asset & wealth

### Services



Architecture



One of the most notable advancements in wealth management has been the rise of the Robo-advisors – where automated digital platforms provide financial planning services with minimum human intervention. Whilst there has always been much talk of their promise, questions about the effectiveness of Robo-advisors remain.

In our view, Robo-advisors have some significant strengths as a tool for wealth managers, but there are limitations that need to be carefully managed and factored into any robo-advisor initiative

### How can Robo-advisors create value for wealth managers?

We see four primary areas where Robo-advisors have significant strengths, particularly over their human counterparts:

#### 1) Cost-effectiveness

Robo-advisors typically charge lower fees than traditional financial advisors. By automating most of the management tasks, these platforms reduce the need for human labour, which in turn lowers their operating costs.

This cost efficiency is particularly appealing to first-time investors with smaller amounts of capital.

#### 2) Accessibility

Many Robo-advisors have low minimum investment requirements, making them accessible to a broader audience. This democratises wealth management services, opening the potential market for wealth managers – allowing them to serve more people who want to improve how they manage their finances.

#### 3) Consistency and speed

Algorithms are consistent and impartial. They can process vast amounts of data quickly, making investment decisions based on thousands of scenarios in a fraction of the time a human would take.

#### 4) Ease of use

Robo-advisors are designed with user experience in mind, offering easy-to-navigate interfaces and simple, straightforward processes for setting up and managing investments.

### What challenges do Robo-advisors present?

Whilst they offer many benefits, in our view there are challenges that still need to be overcome:

#### 1) Lack of personalisation

Whilst Robo-advisors can tailor portfolios based on risk tolerance and financial goals, they often lack the depth of personalisation that comes with a human advisor. Complex financial situations such as estate planning, tax strategies, and retirement planning might be beyond the scope of most Robo-advisors.

#### 2) Limited human interaction

For many clients, the financial advice process is as much about building trust and discussing concerns as it is about actual investment management. Robo-advisors cannot provide the human interaction many clients will seek – a significant drawback for those who value a personal touch.

#### 3) Over-reliance on algorithms

Robo-advisors rely on historical data and algorithms that may not always predict future market conditions accurately. In turbulent markets, the lack of human



oversight can lead to less optimal responses to rapid changes.

#### 4) Regulatory and security concerns

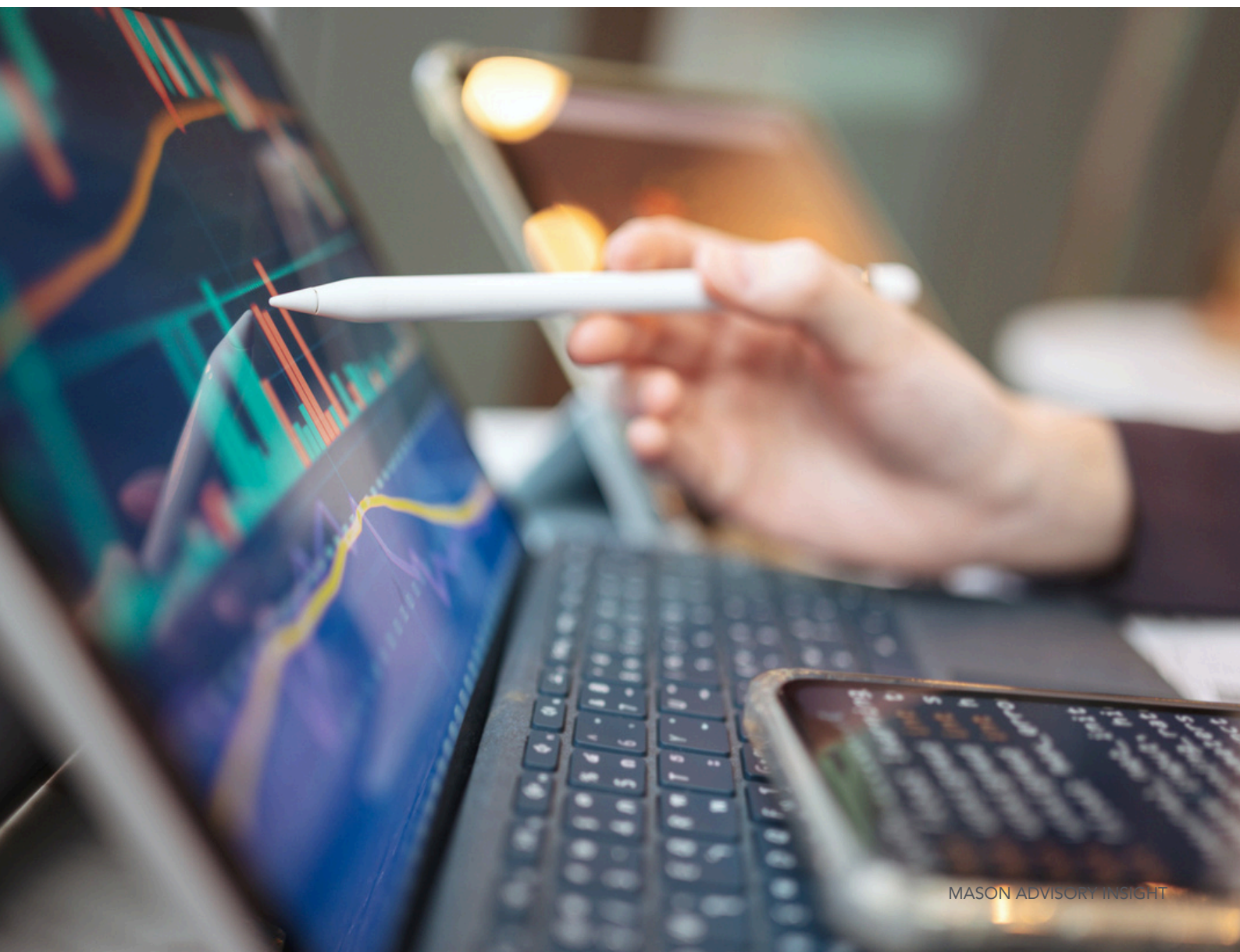
As with any digital platform, Robo-advisors face cybersecurity risks. Additionally, as these tools become more common, regulatory scrutiny increases, which could impact their operations and the level of trust clients place in them.

Robo-advisors remain a significant innovation in a conservative industry, providing efficient and scalable solutions that have broadened the size of the market through providing greater access to investment services. Whilst Robo-advisors can create significant value, their effectiveness will vary based on client needs. As technology continues to advance at pace, we anticipate increasingly sophisticated Robo-advisors capable of handling an ever-larger range

of financial tasks, further closing the gap between digital and human financial advisory services. However, for now, Robo-advisors serve as a complement to traditional services, suitable for specific types of investment management.

If you would like to speak to Paul Atherton regarding this insight, send your enquiry to [contact@masonadvisory.com](mailto:contact@masonadvisory.com)

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### About Mason Advisory

Mason Advisory has offices in Manchester and London and employs over 100 staff, with plans to continue its expansion. We enable organisations to deliver value through digital & technology transformation, solving complex business challenges, and helping clients set strategy through the intelligent use of IT resources including architecture, cyber, data, digital, operating model and organisational design, service management, and sourcing. We operate in sectors such as financial services and insurance, legal and law, government, health and social care, emergency services, retail, FMCG, transport, and not-for-profit.

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