

## MARCH OF THE ROBOTS

Activity at recent industry events seem to suggest the robots are here. Not the humanoid versions that you see in movies, but the invisible ones that are all the rage in the FinTech community providing the magic and the brains behind what look like normal online front-end applications.

These days devices can educate, advise, execute trades and manage portfolios. Often referred to as robo advisers, in reality they appear to be tools to help or simplify a process based on algorithms. These are used by DIY or self-directed consumers as well as financial advisers, who can offload some of their more mundane tasks on to the robo adviser concept. However, currently there are no fully automated robotic-style services delivering the whole advice chain process, not without human intervention.

In the USA this is known as digital wealth management and is being driven by the need for combinations of low-cost digital advice with face-to-face human advice. Technical advances have accompanied demographic developments. The availability of new sources and large volumes of data (big data) has meant that new techniques are now available to understand consumer behaviors, look for behavioral patterns and better match investment portfolios to customer needs.

Techniques for extracting insights from large volumes of data have also improved significantly. Machine-learning techniques can be used to build predictive models to determine financial needs, product preferences and customer interaction modes by analyzing large volumes of socio-demographic, behavioral and transactional data. Big data and cloud technologies facilitate effective use of this combination of large volumes of structured and unstructured data. Availability of memory and computing power in the cloud allows start-up companies to scale on demand instead of setting up an IT infrastructure beforehand.

Clearly, robo advisers are not replacements for face-to-face financial advisers but are technology-driven tools to fill or take over part of the process. In essence this is a natural evolution of modern portfolio theory as a digital experience. It means good-looking interfaces present the information to consumers and takes them away from conventional charts, graphs and jargon. The USA, particularly Silicon Valley, is interested in the next-generation of customer facilitation, and how those tech firms can exploit it. The goal is a simple user interface and experience on mobile devices. Those that succeed will be able to capture data and supply services and goods based on that data.

Therefore the term robo adviser is slightly misleading as they do not provide advice in the formal sense and only certain services are robo. There is however growing interest in the use of technology to deliver financial guidance to consumers at a lower cost than that provided by increasingly costly human advisers. There are at least a dozen of these services already live and developing; from TISA's work with the FCA's Project Innovate team they have had growing contact with this type of discretionary direct proposition. The regulatory development will be interesting, as examples from the USA cannot be replicated exactly in the UK due to the different regulatory environments. The technology will have its limitations and probably a different regulatory approach is called for if regulation is not to hinder the growth of technology services, bridging the gap between execution-only and full advice delivery.

TISA's Technology Innovation Policy Council has already developed a dialogue with regulators both in the UK and Europe as the newly announced European Single Digital Market Strategy and MiFID II will have an impact on the development of these services and their application in the UK financial services distribution chain. It will be essential that regulation allows the deployment of these services naturally alongside conventional regulated advice.

***Peter Smith, Head of Policy Strategy Development***