Robo advisory moves forward in Italy

While robo advice is poised to shake up wealth management in Italy, traditional firms can use it to their advantage.

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Wealth management is in the middle of a crucial transition. Strong regulatory, technological and economic forces are pushing industry players to revisit their business models and value propositions.

FinTechs are accelerating this transition by engineering so-called robo advisor investment platforms that use algorithms to support the entire investing process – from setting financial goals to portfolio re-balancing and monitoring. At the same time, they introduce more transparent, traceable, efficient and customer-centric standards along the overall value chain.

Robo advisors provide investors with low-cost wealth management. They seek to disrupt the traditional wealth management model by disintermediating the service with direct-to-consumer platforms. These deliver easier, faster and more user-friendly investment based solutions to both end investors.

Italians ready for digital

Focusing on Italy specifically, PwC has reviewed the market potential for robo advisory. As part of the study, we conducted a customer survey to see if people are ready to accept a fully automated advisory solution. The analysis showed that:

1. The future of advice will be digital: 40% of interviewees were positive about the adoption of fully automated advisory services. We expect this percentage to grow in the future since new generations are more likely to adopt automated advisory services.
2. Retail investors reveal different behaviours and needs. They form three main groups with specific profiles – what we define as 'smart', 'multi-task' and 'traditional'.
3. No 'one-solution-fits-all' may suit the needs of all three customer profiles. Therefore, we would not recommend financial institutions build only one advisory model, unless they are targeting just one customer profile.

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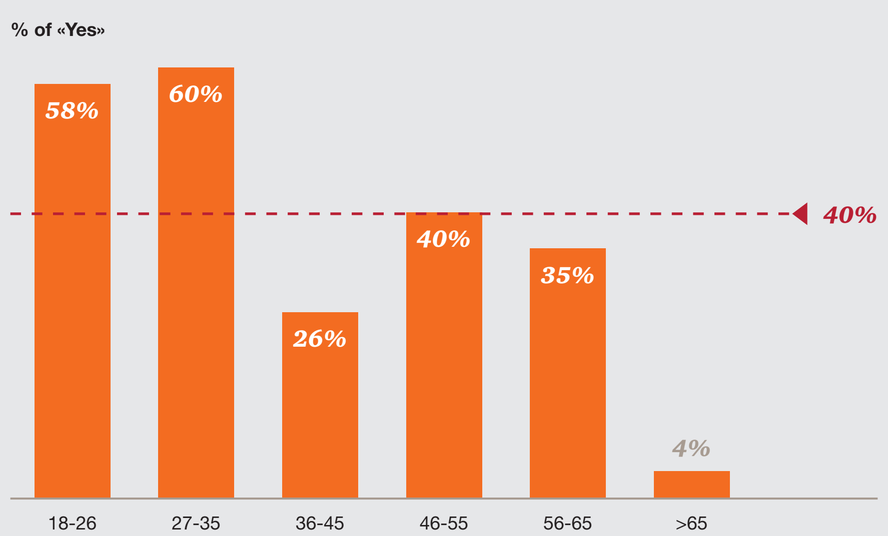
Figure 1: Would you receive investment recommendations from an automated advisory platform?



Source: PwC Robo Advisory moves forward in Italy

Overall, our research revealed just a quarter of the population to be best served by the traditional financial advisory model, with the balance preferring banks to evolve the advisory model through automation and digitisation.

We discovered three different customer profiles. 40% of interviewees were 'smart', seeking easy and simple digital investment services. 34% were 'multi-task', seeking multi-channel investment services. 26% were 'traditional', preferring face-to-face investment services.

More trend than hype

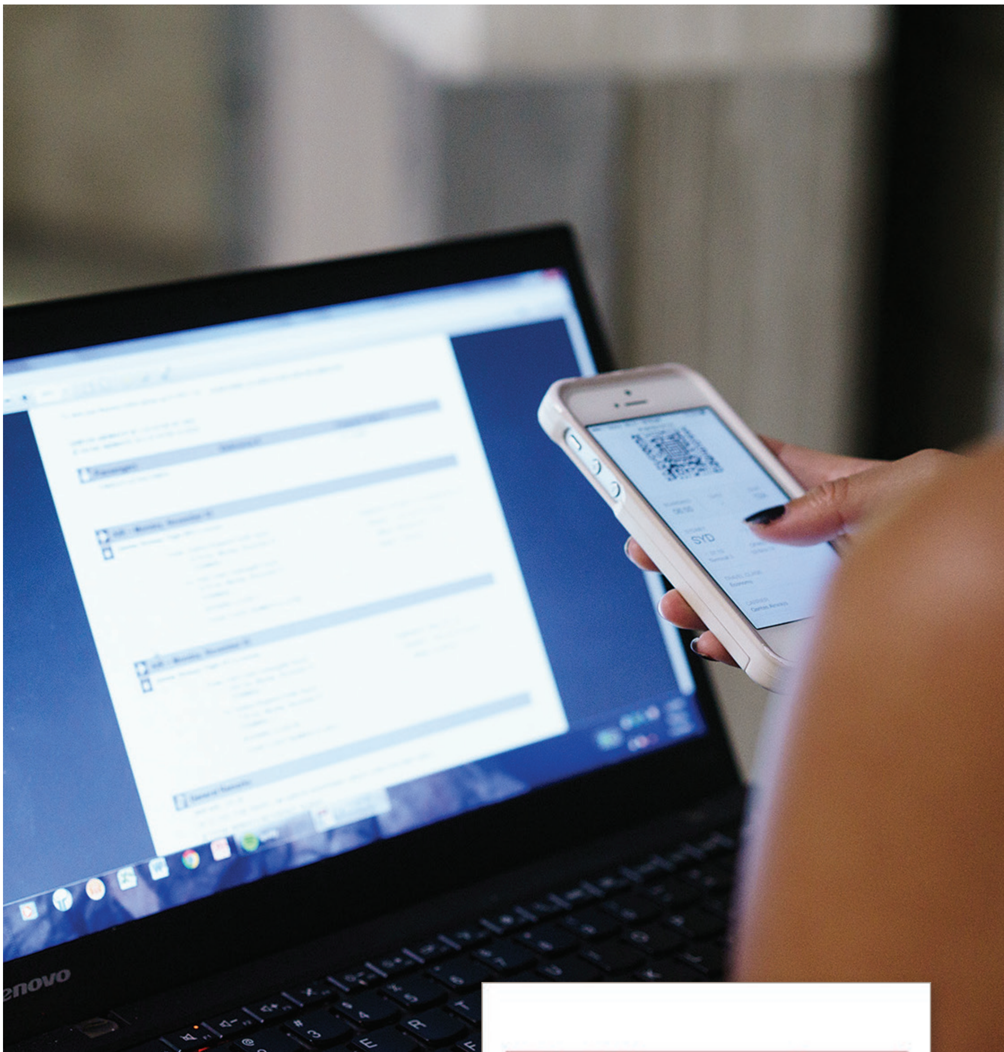
Digital and automated advice will likely become a standard expectation for the affluent and mass-market segments and we have seen only the beginning of what automated advice can become. In particular, the traditional customer segmentation does not suit real customer behaviour any more due to the higher expectations of advisory services and investment performance. There is also greater confidence in digital interaction than human. Robo advice could impact all the investor segments, not just the mass-market and mass-affluent ones. All wealth management firms should consider this phenomenon.

Strategy/service model

As they do so, however, they should consider whether the introduction of robo advice is in line with their own strategies and service models. In fact, there are some banks in the market with strategies which, to meet the demands of their customers, offer high degrees of product and service differentiation. Tailor-made, face-to-face service is a key part of their differentiation. Consequently, their customers may not view robo advice as adding value – even if some of these customers belong to the 'smart' and 'multi-tasking' segments.

Technology

Wealth managers must also consider whether to build the robo advisor in-house, to form a partnership or to buy it from an external provider. Only the big banking groups are willing to invest in an in-house platform. Most of the mid-sized and small players are evaluating partnerships with specialised FinTechs to reduce implementation costs.

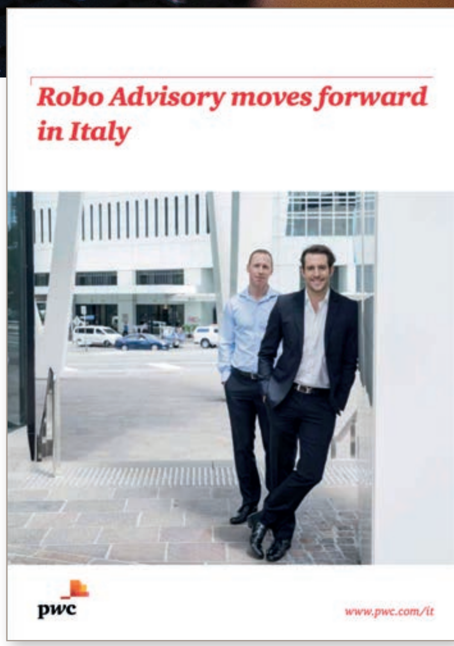


Summary

In summary, digital innovation is poised to shake up Italy's traditional advisory model, based on the direct physical relationship between the advisor and the client. Across the EU, robo advisors are beginning to compete with traditional wealth managers for clients. The new MiFID II regulation even works in their favour.

To turn this innovation to their advantage, wealth managers should build diverse advisory models, value propositions and digital customer experiences. When doing so, they should segment customers according to behaviour rather than wealth.

This article is an extract from a paper also entitled 'Robo advisory moves forward in Italy'.



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