

■ THE BOTTOM LINE

Combining both ‘fin’ and ‘tech’ in robo-advisory services

By Dharmo Soejanto

TECHNOLOGY aids us in working smarter. Knowing how to apply the latest technology – including artificial intelligence – can help humans automate repetitive tasks and spot patterns from large data sets, making us more creative and productive.

Robo-advisory is a case in point within the investment management industry. Technology has lowered the cost of investment advice provided through this medium. This has in turn driven the popularity of robo-advisory services, increasing their share of the investment market. Business Insider Intelligence projects that robo-advisory services globally will manage US\$4.6 trillion in assets by 2022. Considering that the first robo-adviser emerged only in the wake of the 2008 global financial crisis, progress has been brisk. Various asset management companies and financial technology (fintech) companies now offer the service.

Amid the surge in demand for robo-advisory services, reflecting on lessons from other domains that have seen a rise in human-machine interactions can be instructive. Often, the most advanced technology can only be made useful if expert judgement – yes, human judgement – is brought to bear.

We do not entrust the lives of hundreds of passengers to an aircraft, however well-designed, without first placing in the cockpit a pilot who has undergone thousands

of hours of flight training. The pilot can react quickly to unpredictable changes in the environment and flight conditions such as air turbulence, a bird strike or engine malfunction.

Technology with radically new or spectacularly innovative features grab our attention but it is human intervention, prosaic though it may be, that will prove to be the more vital ingredient.

In robo-advisory, one way to parse this issue is to examine the popular term fintech in its constituent parts – “fin” and “tech”. “Tech” has no doubt changed the game, enabling processes to be scaled and therefore services to be delivered more quickly and efficiently. Yet, it is frequently the finance side of the equation that determines if technology is being put to good use in protecting and growing the value of investments.

Take a factor that is decidedly “fin” – capital market assumptions. Asset management firms have accumulated – over years, even decades, of investing – deep insight into how various asset classes react to market cycles and fluctuations in the economy. Such insight forms the basis of assumptions used to calculate the appropriate blend of investments in portfolios at any time.

In a scenario where a robo-advisory service is technologically flawless but capital market assumptions are inaccurate, investors will not achieve their desired outcomes. They may take on more risk or earn lower returns than are

appropriate based on their individual circumstances.

For example, UOB Asset Management’s (UOBAM) glide-path investment methodology re-allocates funds from higher risk to lower risk assets as the investor approaches the end of an investment period, to reduce market risk and increase the likelihood of the investor’s financial goals being met.

To provide this algorithm-based feature, an asset management company needs to programme the machine and tell it how far and how fast the re-allocation should be done, which is inherently a judgement call. There are right and wrong decisions that may be made; and these decisions are not made by the machine but by the people who programme it.

Indeed, in these scenarios, technology can even be said to be hurtful when financial expertise is lacking as the technology causes a fundamentally faulty service to reach a larger group, more quickly, to their detriment. It is like a good pair of shoes that helps you run faster, which is usually a good thing but becomes counter-productive if you are running in the wrong direction.

Financial know-how counts in several other aspects of a robo-advisory investment service. There is expert judgement that goes into which asset classes are offered to investors, as well as the design of the questions posed to them and the interpretation of their answers to determine their risk profile.

To be sure, not doing the “tech” well would produce an inadequate robo-advisory service and could result in investment actions not being taken as scheduled or as intended, or in poor customer service.

Competence in both the “fin” and the “tech” is critical. As the investment management sector expands and assets under management multiply, robo-advisory providers must ensure their capabilities in these two critical areas develop in parallel.

Another sensible path forward is for established asset management firms to collaborate with technology companies. With each side focusing on what it does well, the asset managers can offer their clients the best of both worlds. Complementary strengths act in concert to construct a holistic solution.

Finance and technology are like two hinges on a spectacles frame. If there is one without the other in a robo-advisory service, the glasses slip off and one cannot see clearly.

In today’s Internet age, investors are well-informed about the options they have – such as whether to take up a robo-advisory service and, if so, which service to choose. To win their trust, service providers must demonstrate all-rounded capabilities.

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