BF BETTER FINANCE
The European Federation of Investors and Financial Services Users
Fédération Européenne des Épargnants et Usagers des Services Financiers

PRESS RELEASE

European Robo Advice Market fails to take off, despite showing Promise for Individual Investors

25 January 2021 - BETTER FINANCE publishes the fifth annual edition of its research into Robo Advisors following mystery-shopping covering 13 Europe-based platforms and 4 non-European ones. The Robo Advice sector continues to grow and is well-placed to provide a range of benefits for individual investors, such as considerably lower fees, better accessibility and availability, and more "independent" advice, compared to traditional advisors. Yet, the market has not grown as fast as expected, due to a generalised distrust in financial services and low financial literacy levels amongst individual investors, as well as a limited public awareness of the service.

In many ways, Robo Advice can be said to democratise finance and foster financial inclusion, allowing savers to access investment products at the click of a mouse without having to pay the multiple layers of fees usually associated with packaged, actively managed financial products and "non-independent" financial advice. Most of the Robo Advisors investigated for the 2020 BETTER FINANCE Report do not come with the same conflicts of interests as traditional advisors, most of whom are paid commissions for selling certain products. This 'independence' generally translates into less expensive products, in addition to the cheap service cost of Robo Advisors, with overall Robo Advice fees in Europe situated in between 0.55% and 1.65% and between 0.11% and 1.55% in the US, Australia and Singapore. This compares very favourably with traditional players who typically charge total fees far above 1%.

Some important caveats are in order. Since the report by BETTER FINANCE limits itself to platforms that are independent from large financial institutions, it can't speak for the independence of Robo Advisors who are operated or owned by established players and that may well be subject to conflicts of interest. What's more is that two out of the 12 platforms covered in the report do not disclose whether they receive commissions from suppliers or not, as required by law (MiFID II, Art. 24(4)(a)(i)). Four others are not disclosing this information in a clear and visible way. Unfortunately, this omission leaves a question mark hanging over the assertion that Robo Advisors are mostly fee-based rather than commission-based, and whether their advice is truly "independent". This finding takes on special significance in light of the upcoming review of the Markets in Financial Instruments Directive (MiFID II), expected to be finalised in Q4 of 2021.

It is also very important to keep in mind that some of the attractive features of Robo Advice, such as the ease of use and access, come with their own risks. A first finding of the report is the fact that, despite its many advantages, the **Robo Advice market did not develop and grow the way many expected it to** a few years ago. One potential reason for this slower growth, could be attributed to a generalised distrust in financial services, combined with a limited awareness of the Robo Advice business model and a low level of financial literacy, hence the preference for human advice. However, potential distrust of artificial intelligence does not seem to play an important role in this regard.

The European Federation of Investors and Financial Services Users
44, Rue d'Arenberg, 1000 Brussels - Belgium
Tel. (+32) 02 514 37 77 - Fax. (+32) 02 514 36 66
E-mail: info@betterfinance.eu - http://www.betterfinance.eu

As in previous years, the lower cost of Robo Advisors can mainly be attributed to the use of low-cost exchange-traded index funds (ETFs), which are usually commission-free. Six of the nine platforms that also featured in last year's report decreased their costs compared to 2019.

There was also a **marked improvement in terms of user-friendliness** of the platforms, with platforms providing additional features such as tutorials on how to use their services or educational videos and webinars on key financial concepts for individual investors.

In as far as transparency is concerned, despite some minor improvements, some Robo Advisors continue to disappoint. Although transparency should be the cornerstone for a sound financial industry, **only 65% of the platforms covered by this report disclose past performance in their investment advice and just five out of 17 warn non-professional clients that performance projections or estimations**, based on past performance, are not reliable indicators of future performance.

Most worrying still are the **extreme divergences between platforms in terms of asset allocation and expected returns**. It is astounding to find that, for instance, the recommended equity exposure ranges from 9% to 95% between platforms for exactly the same investor profile. Projected annual returns also vary greatly between the different providers, ranging from +1.80% to +12.8% for the "Millennial" profile, and from +1.60% to +7.40% for the "Baby Boomer" one. Add in the fact that most of the Robo Advisors project lower returns for longer investment horizons, and there is ample reason for concern.

Even though some of the platforms improved somewhat in terms of "suitability", the very high discrepancy between the different asset allocations, risk profiles and expected returns - both between platforms and between investor profiles - remains alarmingly high and once more raises concern about the methodologies and algorithms used to determine suitability and expected returns.

Disappointingly **only a small minority of the Robo Advisors** covered by the BETTER FINANCE Report also try to keep up with the times and **propose sustainable investments**.

"Robo Advice holds promise, but much more must be done to provide adequate investment advice, and to help investors understand the products on offer and their related risks, especially with regards to sustainable finance, which in most cases seems to have been added as a trendy afterthought", says Guillaume Prache, Managing Director of BETTER FINANCE. *"We put forward a series of policy recommendations in the report, based on this evidence and aimed at adapting EU rules on investor protection, MiFID II in particular."*

***

Contact: Chief Communications Officer | Arnaud Houdmont | +32 (0)2 514 37 77 | houdmont@betterfinance.eu

If you would like to be removed from our mailing list, please send an email to info@betterfinance.eu.