PRESS RELEASE

ROBOT INVESTORS CARRY REAL PROMISES FOR SAVERS AND INDIVIDUAL INVESTORS

A new research report by Better Finance

4 March 2016 - Alongside the traditional players of the finance world, there are now purely online services. Robot Advice has emerged in the United Sates a few years ago, and more recently in Europe.

In short Robot Advisers are mostly only internet-based and use computer programs and algorithms that process the input provided by the consumer regarding its financial needs and risk profile in order to direct customers to the appropriate investments. These automated investment advice services have the advantage of being considerably less expensive than their traditional counterparts and constitute an interesting alternative for those investors who do not require complex and custom-made solutions.

Today Better Finance, the European Federation of Investors and Financial Services Users, published the findings of its research on Robot Investment Advice analysing and comparing the main US-based platforms with a selection of the newer European ones.

Whereas the various platforms that were researched do provide advice to some extent, the main services they provide are closer to asset management services, since they typically implement the personal recommendations provided to their clients by executing the investments and rebalancing them periodically. For this reason it could be argued that “robot investing” would designate this emerging business more appropriately.

Compared to traditional advisors, Robot Investors typically adopt a far simpler fee structure usually limited to an “advice” fee and the underlying fund fees. This simple and transparent fee structure also translates into far lower fees than those charged by “human” financial advisors or private bankers. With overall fees between 12 and 99 basis points in the US and 69 and 169 basis points in Europe, Robot Investors compare very favourably with traditional players who typically charge fees far above 100 basis points. But the services provided are typically more basic and less personalised.

Within the ongoing environment of low capital market returns these new players could make a real difference on the actual performance of financial advice and investment management and protect the purchasing power (the real value) of people’s savings.

One of the major advantages of Robot Investing is the fact that nearly all providers researched almost exclusively use low cost index funds. In addition to the automated processing, it is actually the use of these investment products that drive this important reduction in overall costs and fees, generating significant savings. This is especially the case in Europe since the dominant commission-based distribution model keeps fees high and does not incite retail distributors to promote low cost index funds such as ETFs.

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

Whereas most Robots still use traditional asset-based pricing, one of the players ("Marie Quantier" in France) actually developed a rather revolutionary and investor-friendly fee model mostly based on performance, not on the amount of assets under management.

Unfortunately Robot Investing fees are still much higher on average in Europe than in the US, partially due to the fact that these providers are still in start-up mode, but also reflecting findings from earlier Better Finance research indicating that investment–related fees are much higher in Europe. This is largely due to the fragmentation of the European markets and to the lack of product standardisation as well as insufficient competition.

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Contact information:

Chief Communications Officer	Arnaud Houdmont
Phone	0032 (0)2 514 37 77
Email	houdmont@betterfinance.eu