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# Robo-Advisor: Innovations in Wealth Management

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## ABSTRACT

*Recently, online platforms have become a popular way of investing. Robo-advisor is a new way to manage assets. They make investing easier and cheaper to automate investment decisions and increase access to wealth management services. The article is dedicated to a discussion of the advantages and disadvantages of robo-advisers.*

**KEYWORDS: Robo-adviser, capital, innovations, algorithm.**

Globally, since mid-2020, the COVID-19 pandemic has significantly accelerated the development of the digital economy and social relations, which have developed imperceptibly in individual countries over the past decade through the introduction of intelligent management technologies. In a short period in a market economy, modern information technology, artificial intelligence, and intelligent management technologies have proven their effectiveness.

The adoption of the "New Uzbekistan Development Strategy for 2022 -2026" based on the Presidential Decree proves that the introduction of virtual and augmented reality artificial intelligence, cryptography, machine learning, and big data analytics technologies in the scientific and economic sector has been identified as one of the areas of development of digital economy in our country, large-scale research has been conducted and many measures in this area have been identified. To ensure stability, quality, and efficiency of legal regulation of social relations within the application of the elements of the development and expansion of evaluation of the regulatory impact of legislative documents, increasing the competitiveness of the legal system, the requirements of modern technology and digital activities in the implementation of new technologies economy is defined as a priority task of integrated development of the legal system and the main objective of the implementation of legislation in this area based on national In this article, we will discuss a type of artificial intelligence "robo-advisors".

According to many scientists, a robo-advisor is an automated investment service that makes it easier for clients to manage capital through a combination of modern technology and scientific algorithms.[1] Automated financial product advisers, or digital investment management software and automated investment advisers, are robo-advisers emerging in the financial services industry to help consumers choose investments, banking products, and insurance policies. Artificial intelligence-based big data analysis has enabled robo-advisors in the industry to successfully combine their clients' data - financial goals, risk tolerance, and time horizon with the right asset allocation to tailor their clients' skills.[2]

Robo-advisors were first created during the financial crisis in 2008 to rebalance (reallocate) investors' assets within fixed-income funds (funds designed to become more conservative as clients' ultimate financial goals approach) and introduce them to the new world of online interfaces. Most robo-advisors follow a passive investment strategy, with the computer rebalancing the portfolio as the market changes in the prices of stocks (funds), debt (bonds, etc.), and other assets. Robo-advisors became popular in 2008; before that, human financial advisers simply used software to automate their work and charged the same annual fee of 1-3% of total assets under management (total financial assets). Later, the software became publicly available. Now that robo-advisors are available, there are three types of investment methods. Previously, investors had to research companies and stock prices themselves, either because they were not professionals. The alternative was to hire a financial adviser, but this was expensive and required a lot of money to start investing. These two options are not preferable for the average American, who does not have much time to research companies or a large amount of money to cover a minimum investment. Now that robo-advisors are available, beginners can take advantage of this system to save time and invest as much as they want![3]

The United States is by far the leading market for robo-advisors. As of 2017, it had more robo-advisors than any other economy in the world (around 200) and accounted for 57% of all robo-advisor investments. The estimated value of assets managed

[1] Sironi, P. Personalize personal finance. In FinTech Innovation: From Robo-Advisors to Goal Based Investing and Gamification; John Wiley & Sons: Hoboken, NJ, USA, 2016; pp. 8–11.

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[3] Viraj Vishwarupe, Tommy Vu Robo-Advisors A Future Way to Invest? December 14th, 2018 https://digitalcommons.calpoly.edu/cgi/viewcontent.cgi?article=1000&context=finsp

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by robo-advisors in the US exceeded $400 billion in 2018 and is expected to grow at an average annual rate of 31%, reaching nearly $1.5 trillion by 2023. Currently, the largest robo-advisors in terms of assets under management are Vanguard ($112bn), followed by Intelligent Portfolios ($33bn) and Betterment ($14bn).[4]

*There are many reasons for the growing popularity of robo-advisors:*

Simplicity and affordability. According to academics, the main reasons for choosing a digital adviser over a traditional adviser were simplicity, low cost, and neutrality of advice. Ease of use was seen as convenient and accessible, and investment advice was not dependent on location or time. Simplicity could be incorporated into the reasonable functional benefits of digital services technology. Robo-advisory services do not require specific financial expertise. It is also very important that robo-advisory services are available to absolutely everyone via the Internet, does not require an office, etc.

Low commissions and minimum investment. Low commissions and minimum investment robo-advisors are referred to as asset management technology because the process from account opening to making investment decisions is fully automated, which significantly reduces administrative costs. In the US, professional investment managers charge 1-2% commissions, while robo-advisors charge around 0.2-0.3%. This is profitable, especially for business start-ups. However, based on the principle that money is never in abundance, and is always in short supply, the widespread adoption of robo-advisors will lead to more money being made with minimal investment;

Building a portfolio based on algorithms. A questionnaire-based algorithm can customize the portfolios offered to users. Many factors are taken into account, including the risk profile, and we offer individual conditions for each one. In addition, the financial models built into the algorithms can take into account a huge amount of data about companies that are important for decision-making.[5]

- The human factor. Robo-advisors are also considered more neutral than human advisors in their investment advice. Human advisers may be guided by their interests rather than the needs of their clients, and their human nature can lead to inconsistency in their advice;
- Time savings. An investor needs to download, test a trading system, and then only occasionally tweak the settings: no need to sit all day in front of a computer;
- Higher efficiency of trading operations in the short and long term;
- Simplification of trading. Robo-advisors can take into account many features of technical analysis, which are difficult to remember for an ordinary consultant with little experience;
- The robot scans the market 24 hours a day, having access to the Internet. There is no need for others to intervene to open or close orders;
- Increased income. Robo-advisors with different settings can additionally increase the deposit from 10 to 150%. The higher the risk, the higher the percentage;
- Emotional mistakes when making trades are excluded;
- Huge amount of trading robots for different trading strategies and currency pairs, which allows you to customize several systems. Each of them will be profitable;
- If properly configured, the robo-advisor will not cross the risk threshold.

Robo-advisors are modern, easy to use, and provide standardized investment solutions. But they are not reliable. They have many limitations, such as:

- When investment rules and policies change, the robo-advisor program must also change, which takes time, money, and effort. A human advisor, on the other hand, can immediately start taking advantage of the changes. Also, some investors want face-to-face meetings with advisers, which is not possible with robo-advisors;
- Good performance on history in tests does not yet guarantee similar results in real-time;
- The need to replace advisors. This is because the program has a clear set of characteristics, which become obsolete over time and are not suitable for modern tasks;
- Robo-advisors do not know how to react to dramatic changes in the market or news. They will continue to work according to a set algorithm, which can then harm income.
- They cannot provide personal guidance. They operate on artificial intelligence at the level at which they are programmed. They cannot think beyond their programmed capabilities and lack the flexibility to adapt to a unique situation for which they have not been prepared. They cannot give the "friendly advice" that many confused people so desperately seek, especially when markets are volatile.
- There are times when investors need advice on more than just money issues. Or they may need to integrate financial, tax, and estate plans. These requirements can only be handled by an experienced human adviser, not a robo-advisor.
- With any rule or policy, robo-advisors must be reprogrammed, and this can take time, money, and effort. Human advisers, on the other hand, start using the changes immediately.[6]

Robo-advisors are becoming increasingly popular. Industry experts recognize that robo-advisor technology will revolutionize the way people get investment advice.[7] Traditionally, the high cost of financial advice meant that only the very rich could afford such services.[8] By replacing human advisers with algorithms, robo-advisors offer significantly lower fees than traditional money management services, making them an attractive option for younger investors and those with smaller account balances.[9] The robo-advisory market has expanded rapidly since the first major service was launched in 2010.[10]

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[4] Abraham and Schmukler: Development Research Group, the World Bank. Tessada: Pontificia Universidad Catolica de Chile (PUC & FinanceUC). E-mail addresses: fabraham@worldbank.org, sschmukler@worldbank.org, jtessada@uc.cl

[5] Ван Хорн «Основы финансового менеджмента» / И.Д. Вильямс, 2015; Филиппов И.Н., « РОБО-ЭДВАЙЗОРЫ. ИННОВАЦИИ В УПРАВЛЕНИИ АКТИВАМИ», 2016г.

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[7] The Rise of Robo-Advice: Change the Concept of Wealth. http://www.accenture.com/_acnmedia/PDF-2/Accenture-Wealth-ManagementRise-of-Robo-Advice.pdf

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Another key feature of robo-advisors is that they complement rather than replace traditional advisers. However, there is a possibility that they could completely replace humans in the future. What will happen in the future?

*Based on the above, we draw the following conclusions and requirements for robo-advisors:*

Firstly, robo-advisors and traditional financial advisers have the same standards of behavior regarding advisory services. Robo-advisors must be transparent about the costs, potential risks, and limitations of their services. They must also disclose all information fully and accurately. Information should be provided in such a way that clients clearly understand investment activities and potential conflicts of interest. Such information must be easily accessible and understandable to the client.

Second, the robo-advisor must explain how it deals with operational and market risks, both in normal times and in challenging market conditions. Investors should be informed about the operational aspects of the services, i.e. the assumptions and limitations of the allocation and optimization algorithms. For example, portfolio rebalancing.

Third, the robo-advisor must make sure that its recommendations and strategies are appropriate for its clients. The fit should be based on the client's financial situation and investment objectives. To do this, the robo-advisor relies on the information provided by the client in the online questionnaire. As mentioned earlier, the essence of the robo-advisor is largely about client selection. Last but not least:

Fourthly, cybersecurity and automated online advice, the protection of confidential client information is a critical issue. Thus, robo-advisors need to implement controls to protect client data and maintain a public website/log-in capability for clients.

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