

Impact of Automated Asset Management Tools on the Private Banking Sector

Case Study of VP Bank Switzerland AG

Bachelor Thesis

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Abstract

Advances in digitalization and automation have permeated almost every aspect of economic life. Recently, these advances have spilled over into the investment advisory industry. These so-called robo-advisors are frequently characterized as a disruptive innovation. The aim of this thesis is to examine which claims about the robo-advice industry are substantiated by facts. To this extent, the socio-economic and regulatory drivers of the recent growth of the robo-advice industry are examined. Second, the robo-advice industry is analyzed in terms of a traditional SWOT analysis. This analysis provides a basis to determine which parts of the financial advisory business will likely be dominated by automated and digitized services and which aspects will be performed by human advisors. Finally, the thesis examines the strategic impact that the advent of robo-advisory is having on the private banking industry. This industry primarily caters to individuals with significant funds to invest. In this market, the fee structure is not the primary basis for competition among different providers as clients expect their advisors to handle much more than just the portfolio allocation. Thus, a detailed case study based on VP Bank of Switzerland is presented which illustrates how private banks can position themselves to compete with robo-advisors and even partner and benefit from them. The analysis shows that the robo-advisory business model is mostly an extension of private banking services in that there is only limited applicability of robo-advisory technology in the high and ultra-high-net-worth market segments. On the other hand, the low-cost and standardized delivery of robo-advice enables private banks to cater profitably to investors with lower investable assets. Hence, it is likely that a symbiotic relationship emerges between traditional human advisors and robo-advisors. Therefore, robo-advisory is not a distributive innovation in the sense that it will fundamentally alter the investment advisory business. It is rather an incremental innovation which asset managers should use to provide financial advice to customer segments which were previously not a core market.