

# Research on the Development of Robo-advisory based on Domestic and Foreign Legal Regulations

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**Abstract:** In 2022, the intelligent investment advisory platforms in the banking industry have announced the offline of the market, which has attracted the attention of many investors. Since the introduction of robo-advisors into China in 2016, various robo-advisory platforms have gradually been established, but they exist in the process of development. The flaws are also gradually revealed with the development of robo-advisors. This paper compares and analyzes the development status and research results of domestic and foreign robo-advisors, explores the measures that can be taken by China's robo-advisory platform in the development process, and provides a theoretical basis for the development of robo-advisors in China.

**Keywords:** Robo-advisor; Legal Regulation; Regulatory Measures.

## 1. Introduction

### 1.1. Research Background

In recent years, almost all robo-advisory businesses in the banking industry have gone offline, and most of the reasons shown in the announcement are "implementing regulatory requirements".

In 2010, with the rapid development of science and technology, the United States began to explore a new investment advisory model, that is, robo-advisory. Looking at the global financial market, Western countries with well-developed financial systems led by the United States and the United Kingdom have begun to use robo-advisory as an important tool to be responsible for investor asset management. Affected by the development of intelligent investment advisory in Western countries, the concept of robo-advisory began to appear in the domestic financial market in 2015. In 2016, China's robo-advisory services accelerated the development process and opened China's "first year of robo-advisory".[1]

### 1.2. The Significance of the Topic Selection

At present, many platforms have carried out intelligent investment advisory business, but most of them are not intelligent investment advisers in the true sense, but carry out product sales and stock recommendation in the name of intelligent investment advisers. The traditional old norms cannot effectively regulate new technologies such as robo-advisory algorithms, resulting in many gaps and conflicts in the supervision methods, fiduciary obligations, and responsibilities of robo-advisors. At present, China is further exploring the construction of intelligent investment advisory system and business model.[2]

### 1.3. The Advantages of Robo-advisory Over Ordinary Investment Advisors

#### 1.3.1. The Limitations of Traditional Investment Advisors

There are more than 3,500 A-share listed companies, and the number of public funds exceeds 5,000, in addition to a large number of private funds, bank wealth management and

other products. The scale is so large that the traditional investment model can no longer meet the requirements of the times.

#### 1.3.2. The Management Fee of Robo-advisor

The management fee of traditional investment advisory is about 1%, while the management fee of robo-advisory has been reduced to about 0.3%, and even the management fee of individual platforms has been reduced to 0%.

#### 1.3.3. The Customer Base of Robo-advisor

Traditional human resources are extremely scarce. Therefore, traditional investment advisory services can only serve high-net-worth people.

#### 1.3.4. The Efficiency of Robo-advisory

The entire operation process of robo-advisory is controlled by robots, so the platform can serve investors with different needs at the same time, and the service efficiency of robo-advisor is very high.

## 2. The Analysis of the Current Situation of Intelligent Investment Advisory at Home and Abroad

### 2.1. The Current Status of Domestic Robo-advisory Research

#### 2.1.1. The Definition of the Concept of Robo-advisory

The definition of the concept of robo-advisory is actually a topic that has been debated endlessly in recent years. China's current definition of the concept of intelligent investment advisory is roughly divided into three categories, the first category, intelligent investment advisory has comprehensive business attributes, the second category, the essence of intelligent investment advisory is securities investment advisor, and the third category, the essence of intelligent investment advisory is asset management.

#### 2.1.2. Regulation of Robo-advisors

Regarding the legal relationship of robo-advisors, scholars have their own opinions. Li Qing proposed in the article "Risk Analysis and Legal Regulation Path of Robo-Advisor" that the legal relationship of robo-advisory should be divided into horizontal and vertical relationships, while Wu Ye and Ye Lin

argued in "The Nature and Regulation Path of Robo-Advisor" that the legal relationship of robo-advisory should be the trust relationship between the robo-advisory platform and investors.

### **2.1.3. Research on the Supervision of Robo-advisors**

China's definition of the concept of robo-advisory is inconsistent, and the supervision of robo-advisory has been seriously hindered. In this regard, scholars expressed their own opinions. Some argue that a third-party regulator should be brought in to regulate robo-advisors. In addition, some people have proposed a "sandbox supervision" system, believing that advanced technology can be introduced to supervise robo-advisors.

## **2.2. The Research Status of Foreign Intelligent Investment Advisory**

### **2.2.1. The Concept of Robo-advisory**

Western capitalist countries developed robo-advisory earlier than China, and there is a unified definition of the concept of robo-advisor. Taking the United States as an example, in March 2016, the US Financial Industry Regulatory Authority pointed out that robo-advisory is a digital investment method that provides users with investment advice and securities trading.[2]

### **2.2.2. Regulation of Robo-advisors**

Different countries have different regulatory regimes for robo-advisors. The United States believes that although robo-advisors are an emerging fintech product, they are still subject to the restrictions of the Investment Advisers Act of 1940. The "regulatory sandbox" system has been adopted by the Financial Industry Authority of the United Kingdom, emphasizing that robo-advisory is one of the future development directions, and guiding and regulating the intelligent asset management business at multiple levels.[2]

## **3. Problems in the Development of Robo-advisory in China**

Compared with the development of robo-advisory at home and abroad, there are many problems in the development of robo-advisors in China.

### **3.1. Problems in the Definition of the Concept of Robo-advisory in China**

The current development of domestic robo-advisors is not complete, and the definition of the concept of robo-advisors is not perfect, which is also a relatively large problem in the development of domestic robo-advisors, which will directly affect the supervision of the Chinese government for robo-advisors.

### **3.2. Insufficient Investor Education and Consumers' Willingness to Invest**

Investors' understanding of stocks, funds, etc. is very one-sided. Chinese investors began to contact investor education courses too late, far behind developed countries, and investors' financial literacy is generally low. Investor education work improves the enthusiasm of investors, investors are more willing to learn financial knowledge, 90% of investors are willing to invest corresponding time and resources, indicating that individual investors have a very strong desire to improve their financial literacy, and the systematic investor education work is carried out late,

resulting in the shortage of financial literacy reserves of investors in China.

Moreover, as one of the countries with the highest savings rate, the total amount of Chinese residents' deposits has been continuously increasing. Especially in the context of rising uncertainty in the economic development environment and repeated public health incidents. Many people, fearing that they will lose their income or face unemployment, would rather save their money than invest it.

### **3.3. Professional Level of Intelligent Investment Advisors**

Robo-advisory uses technology to realize investment advisory services and reduce labor costs, so investors are usually charged only a small fee, or even provide investment advisory services for free. However, due to the level of technology and insufficient available funds, many enterprises cannot support the cost of running the platform and cannot provide the required technology, so the development of robo-advisory is greatly limited.

### **3.4. Relevant Laws, Regulations, and Regulatory Rules are not Perfect**

At present, there are certain loopholes in China's supervision of robo-advisors, and we can find a development strategy suitable for China by analyzing domestic and foreign legal regulations and regulatory rules.

## **4. Advice on the Development of Robo-advisors in China**

### **4.1. Standardize the Definition of the Concept of Robo-advisory in China**

Because there is currently no unified concept definition of domestic robo-advisors, there are inevitably many problems in the current national supervision of robo-advisors.

The author believes that the definition of the concept of robo-advisory can be learned from the US robo-advisory industry. As the birthplace of robo-advisory and the world's largest robo-advisory business country, the understanding of the concept of robo-advisory by its regulators is a summary of its domestic practice and has great reference value.[3]

### **4.2. Strengthen the Education of Investors**

The development of robo-advisory in China is also inseparable from investors' understanding of robo-advisor and various bonds.

There are three ways to enhance investor education. First, strengthen policy guidance and promote the legalization of investor education; Second, broaden the scope and content of investor education, and extend basic knowledge training to risk awareness, financial products, investment strategies, etc.; Finally, innovate the forms and means of investor education, and use digital technology and Internet platforms to carry out investor education.

### **4.3. Learn from the Business Model of the US Robo-advisory Platform**

After long-term development, the US robo-advisory platform is in a leading position in the world. A.T. Kearney, a world-renowned consulting firm, predicts that the AUM of the artificial intelligence financial management industry in the United States will grow from \$300 billion in 2016 to \$2.2

trillion by 2020, with an average annual compound growth rate of 68%. This fully shows that robo-advisors have huge room for development in the United States.[4]

To a certain extent, the author believes that China can learn from the business model of the US robo-advisory platform to

optimize its own robo-advisory business.

Here are some of the more well-known robo-advisory companies in the United States and their business models. As shown in Table 1.

**Table 1.** The business models of four different types of American intelligent investment advisory companies

Enterprise	Business model
Betirement	The business covers both robo-advisory and manual advisory, with zero threshold for robo-advisory. Business model: The core portfolio is based on 13 ETFs, mainly covering equity and bond assets By filling in the questionnaire, users can obtain asset allocation solutions under different strategies, mainly including core portfolio, social responsibility portfolio, smart beta portfolio, target income portfolio, cash account, a total of 5 types of solutions. The investment targets of the core portfolio are ETF products, based on 13 ETFs, according to the different weights of stocks and bonds, a total of 101 allocation schemes, matched according to user conditions.
Wealthfront	Only pure robo-advisory services are provided. Wealthfront provides pure robo-advisory services with no human advisory services Business model: The portfolio is based on 11 ETFs, covering a wider range of asset classes The Wealthfront portfolio is based on 11 ETFs, spanning 17 asset classes and hundreds of low-fee ETF products.
Vanguard	Vanguard Group's investment advisory services are divided into 9 categories according to the different service customers and different entrusted methods, of which VPAS is a combination of robo-advisory and traditional manual investment, and VDAS is pure robo-advisory business. Business model: VDAS is a pure robo-advisory business, with low initial investment amount and management fee, and the investment target is 4 Vanguard ETF funds: the allocation ratio of stock and bond markets, domestic and international markets can be determined according to the user's situation. VPAS business is a combination of traditional investment advisory and robo-advisor, with unlimited human advisory services, and can only invest in Vanguard's funds. Most invest in ETF funds, and a small amount in actively managed funds. Vanguard has 417 funds to choose from, allowing users to diversify their investments while reducing fees.
Charles Schwab	Schwab Intelligent Portfolios has the ability to build, monitor and rebalance portfolios based on user goals and does not charge advisory fees, account service fees, or commissions. Later, Schwab Intelligent Portfolios Premium was launched, adding manual investment advisory services on the basis of all the functions of robo-advisory to make financial planning for users.

#### 4.4. Parallel System of Two Types of Licenses

The operation model of China's robo-advisory platform is very different, according to the way of providing services to customers.

It can be divided into three types: hybrid recommendation type, independent advice type and one-click wealth management type. According to the degree of intelligence, the degree of intelligence of independent advice type is greater than that of one-click financial management type and greater than that of hybrid recommendation.

For robo-advisory platforms that only conduct securities advisory business and do not involve asset adjustment, a new type of investment advisory license is applicable. However, those investment advisory platforms that are under the name of "robo-advisor" but are actually: as unintelligent as stock recommendation software are suitable for traditional securities advisory licenses.

### 5. Summary

As a new type of financial technology, robo-advisory makes inclusive finance possible with its low-fee, low-threshold and professional investment advisory services.

However, due to the late start, the development of China's robo-advisor is slightly slower than that of foreign countries, so there are still many difficulties in China's development of robo-advisor. In the face of this situation, we need to study the achievements of other countries in robo-advisory, and then combine the research results and the current situation in China to summarize the robo-advisory regulatory system suitable for China.

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