From the customers perspective, what are the advantages and disadvantages between using a robo-advisor and a human-advisor

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As we move deeper into the 21st Century technology is continually improving. Generations of children are now brought up on tablets and smart phones with an app available to meet every need. There is a sense of inevitability that the time of the robo-advisor is upon us. Some companies have taken the first steps using risk appetite and profiling tools. One large bank in particular using an advertising campaign relating investors to animals, with fiercer animals such as lions attributed to more aggressive investors. Other companies offer portfolio construction tools based on risk tolerance and required returns to generate asset allocations. Many banks and stockbrokers offer a fully automated share dealing service on an execution only basis, so robo-advisors are the next logical step.

Robo-advisors could save money and countless man hours through not having to employ advisors to write twenty plus page advice reports for every investment decision made and compliance staff to scrutinise the suitability and appropriateness of every piece of advice. The reduction in costs would filter down into the fees being charged, meaning clients would not only receive a much quicker service but a cheaper one also.

Experienced investors or industry professionals will already have an idea of their financial objectives and how to achieve them. Regulation dictates however that these investors still need to be taken through an arduous advice process to demonstrate suitability and appropriateness. One thing we are always short of is time, to the extent that we have invented cold coffees and liquid meals as they are quicker to ingest. Often clients will only use an advisor because they do not have the time to manage their own affairs. Rather than spending hours in travelling to and partaking in meetings with their advisors, they could perform the whole process online or via an app on their smart phone from their living room, in their underwear if they so please.

Losing out on a human advisor would make the process a lot more impersonal. Advice does not just cover investments; financial planning is also a huge part of our lives. A common and powerful question an advisor at our firm would ask their clients is “what keeps you awake at night?” More often than not, the top answer on the list would be making sure that loved ones are provided for. The sense of safety and stability we can provide gives a huge amount of comfort to our clients - a personal touch that a robo-advisor could not provide.

The advantage of being in the room with an investor is that an advisor can ensure that they have understood the concepts being discussed. If they are clicking buttons online however, clients run the risk of clicking through questions without really reading or understanding them. This is highlighted by the recent spoof news story about the new Apple IOS Terms and Conditions containing comical bogus information because the editor supposedly knew that people would just click ‘I accept the terms and conditions’ without reading. Meeting people and understanding their needs can also highlight other areas that where an advisor can add value, such as an introduction to a specialist or expert in a particular area such as philanthropy.

It can take years of building rapport before a client is sufficiently comfortable to trust an advisor with their life savings. That same client is unlikely to feel so warm towards his virtual advisor because 'people buy people' and there really is no substitute for a strong personal relationship with someone you can trust, but who is also accountable.

For example, if a client was two years into a five year investment and, at that moment, sitting on a paper loss, a robo-advisor is unlikely to show empathy or rationalise the long terms goals against the initial investment objectives set. It could lead to the client withdrawing their money to prevent further loss but in doing so potentially miss out on a recovery. A human-advisor could address specific concerns and keep their attention focused on the longer term goals, particularly important for less experienced investors who require that larger degree of hand-holding.

Humans have opportunities everyday to make a client feel valued and recognised, whether it's taking them to dinner or to a sporting event, or just sending a hand-written birthday card. People like to feel wanted to know that you care.

Staff retention will always be a risk for firms. If an advisor leaves a business clients can often be hit the hardest. After years of building trust with a specific individual, it is very difficult for another advisor else to take over that relationship. If a client is unlucky enough to have a poor advisor, it can affect their opinion of not just the firm, but of the industry as a whole impacting investment decisions and behavioural finance in the future.

No one is perfect, people do make mistakes. Portfolio managers occasionally select bad stocks and advisors have historically given advice later deemed unsuitable. Banks are still paying the price for mis-selling of payment protection insurance for which the industry-wide provisions hit £40bn last year. The robo-advisor in theory could be designed in a way that prevents mis-selling, providing clients have followed steps and answered questions correctly throughout the process.

The time of the robo-advisor is upon us and there is certainly a gap in the market for a well-designed app although when it comes to peoples' comfort and security, but you cannot underestimate the strength of a personal relationship. The power of being able to look someone in the eye, celebrate successes and help through the challenging times is immense. We are emotional beings and will always struggle to have an emotional connection with a robo-advisor.