Critical Success Factors for Customer Acceptance of

Digital Financial Advisory

Masterarbeit

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1 Introduction

1.1 Motivation and Relevance

As in many other areas, the internet and digitization have also contributed to a change in the financial sector.[1] Startups in the field of financial technology, so called FinTechs, are currently have a decisive impact on the success of digitization in the banking industry. In many areas, such as payment transaction and lending, numerous providers have already been successfully operating for several years. This so-called digital revolution has not stopped at classical asset management either.[2] In 2007, many investors lost confidence in human investment advisors in 2007 as a result of the financial crisis. In this context, digital financial advisors, or robo advisors, are becoming increasingly important.[3] They offer financial services where the customer receives an algorithm-based automated investment recommendation based on an online questionnaire. This can be done without human intervention. The attractiveness of this market is reflected in the steadily growing financial assets of German private households, which amounts to 6.1 trillion euros.[4] Statistics also show a significant increase in user numbers and volumes of these new investment opportunities.[5] Nevertheless, these new technologies are repeatedly criticized in the press. "Germans do not trust the robo advisor"[6], "Automated investment not a big hit in Germany"[7]. Titles like these can often be found in the newspaper. Despite the seemingly increasing interest, many users are still not convinced and critical of the new trend.

1.2 Research Question and Structure of the Thesis

The aim of this paper is therefore to investigate why users are not yet using these digital technologies more intensively and what factors convince them to use a robo advisor. The research question of this thesis is therefore:

What are the critical success factors for customer acceptance of digital financial advisory?

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[1] Winnefeld and Permantier (2017)
[2] Miao and Juanjuan (2018)
[3] Dorfleitner and Hornuf (2016)
[4] Bundesverband der Deutschen Volksbanken (2019)
[5] statista.de (2019b). statista.de (2019c)
[6] Sturm (2019)
[7] CIO (2019)

The present paper is divided into five chapters, which are briefly outlined below. The structure serves to clarify the research process in order to be able to comprehend the research result. In order to answer the research question the following chapter explains the theoretical basis for this work. First, financial advice is explained and it is clarified why it is necessary. In addition the definition of robo advisor and the different business models are explained. Furthermore, an overview of the current market situation is provided, and the current limitations of robo advisors are addressed to identify future improvement potentials. Furthermore a short overview of acceptance models is given.

Chapter 3 reflects on the choice of research methods and presents relevant principles of the chosen research approach: grounded theory. First, the reasons qualitative research was chosen are explained. Then, the procedure as well as the study's participants are described in detail. In addition, the evaluation method for the analysis of the expert interviews is described. In the following the results are presented and the resulting factor model is explained at the end. Chapter 4 critically examines the research results and methodology used in this work. The limitations to which the present study is subject and, in addition, an outlook is given on possible future research directions. Finally, the conclusion and outlook are presented in chapter 5.

2 Theoretical Background

In this section, the relevant literature on financial advice and robo advice is presented. The business model, the current market situation and limitations of the current robo advisors will be discussed in more detail. Furthermore, a short overview of acceptance models is given.

2.1 Financial Advice

Managing savings is a task few enjoy. This is understandable as managing long-term saving plans is a challenge for many.[8] In addition to planning, savings management includes the selection of assets and instruments, the evaluation of one's risk attitude, and decision on asset allocation and necessary diversification.[9] Furthermore, many people do not have sufficient financial knowledge.

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[8] Guiso et al. (2008)
[9] Gennaioli et al. (2015)

5   Conclusion and Outlook

Finally, the findings of this paper are summarized. The aim was to determine critical success factors for customer acceptance of digital financial advisory. A qualitative approach was chosen to answer the research question. Furthermore, it was decided to interview experts in order to determine critical success factors. Three different groups of experts were interviewed. FinTech companies, banks and management consulting's. With the help of these different groups it was hoped to get a broad variety of answers and a good overview of the field of research. Before the interviews were carried out, the basic literature on robo advisor is presented first. It was particularly noticeable that there is no uniform definition of a robo advisor and therefore many experts have a different understanding. This has to be considered in this paper. The primary part of the work, Chapter 3, then consists of a qualitative analysis. For the methodology, the ground theory approach of Glaser and Strauss from 1967 was chosen. The data collection is carried out through guideline-supported interviews and the data were evaluated using open, axial and selective coding. Thus, a total of 13 success factors for the customer acceptance of digital financial advisory could be found. These are explained in detail in Chapter 3 with the help of interview statements from the experts and are then vividly presented with the help of a model developed in-house.

With regard to the success factors found, it can be said that all in all, each of them, if fulfilled, leads to customers being more likely to use the services of a robo advisor. Similarly, no success factor can be considered more important than any other. Nevertheless, some factors have been mentioned more frequently by experts than others. For example, trust was mentioned and considered important in every interview conducted. The situation is similar with the use of modern methods and as little effort as possible on the part of the client. Many robo advisors today are not up to date with the latest technology and sometimes use completely outdated methods. Customers do not have to be familiar with these methods, but the performance of the robo advisor may suffer as a result. The same applies to the portfolios offered. Due to the use of old methods, only a few sample portfolios can be offered in most cases, which means that it is not possible to work on a customer-specific basis. This, in turn, does not meet the wishes of the clients. Here there is clear potential for improvement for the robo advisors.

This is also considered to be necessary, as most of them assume that the market will become consolidation due to the meanwhile high number of providers. Only the best robo advisors who use good methods and, of course, are perceived by the customer will be able to assert themselves. Suppliers of digital investment platforms should bear this in mind. By using artificial intelligence, modern algorithms and other techniques, the customer's effort should be kept as low as possible. However, complete automation is less desirable. Customers, especially in Germany, still have a rather conservative attitude and prefer solutions with the opportunity to interact with a human being. Consequently, hybrid models and cooperation's are regarded as promising. Thus, the well-known saying by Bill Gates in 1994: "Banking is necessary banks are not"[274] cannot necessarily be applied to the world of digital investment advice. In this context, people are seen as extremely important and necessary contacts. The sum invested is also decisive here. Here, the human being as a contact person is considered very important and necessary but the invested amount of money is crucial.

Also promising in the future will be the visualization of the portfolio. Most consumers receive finance as an extremely dry and boring subject and only a few are really happy to deal with it. This option could change everything in the future. By taking into account other trends, such as sustainability, customers can be visualized what they have supported with their portfolio. As a result, the whole topic could be given a whole new perspective to many customers and greatly enhance the attractiveness of the whole. Overall, it can be said that that the developed model has certain similarities with the UTAUT 2, like costs, but it is very different since it is geared solely to robo advisor and for example age, gender and experience are rather unimportant here. Based on this work, a significant number of questions arise for future research. Since the field, especially the customer acceptance of these digital technologies has progressed little until now, there is still a lot of potential in this regard to better tailor the offer to customer needs and to improve it.

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[274] Polleit (2018)