

RESEARCH & ANALYSIS

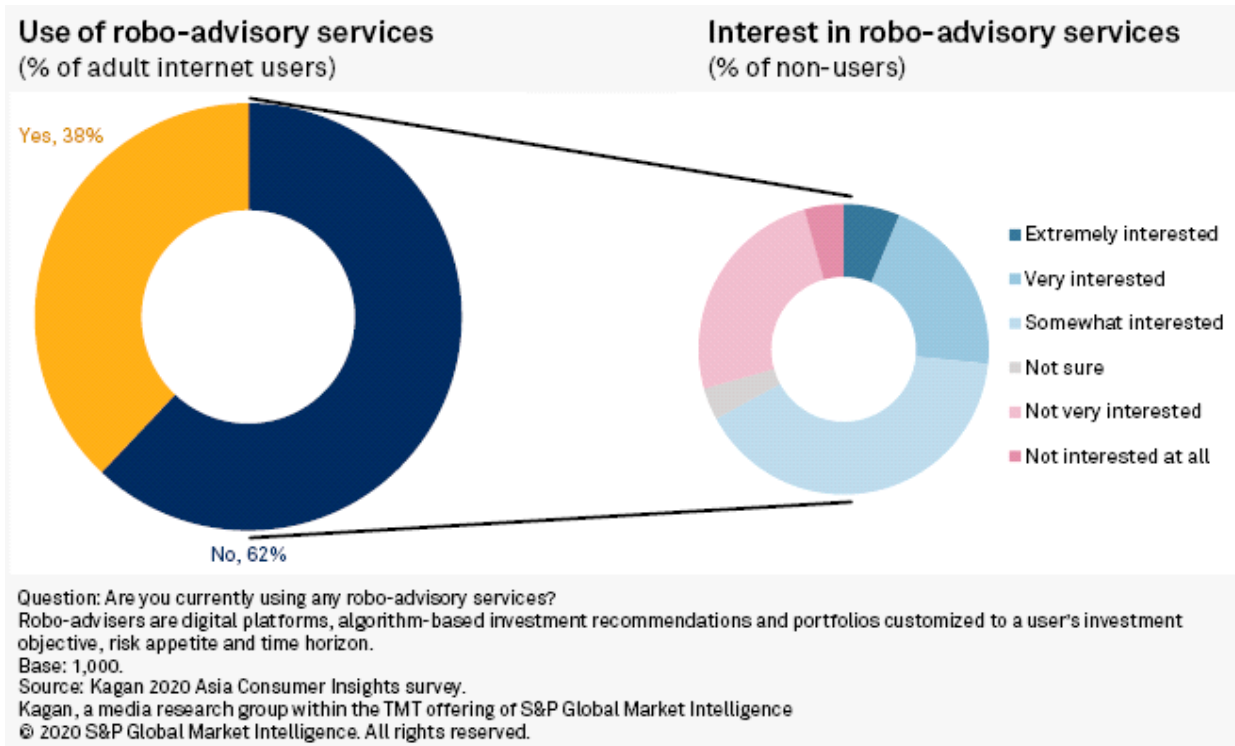
Robo-advisers catching on in China, industry looks poised for growth

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Market Intelligence

Chinese consumers appear to have a keen interest in robo-advisers, an optimistic sign for the growing number of financial institutions that are launching automated investment advisory services on the back of China's pilot mutual funds advisory scheme.

Roughly 38% of adult internet users in China are currently using robo-advisers, according to a 2020 survey from Kagan, a research division within S&P Global Market Intelligence. Interest was also remarkably high among non-users, with 68% expressing some level of interest in using robo-advisers. The survey defined robo-advisers as digital platforms that offer algorithm-based investment recommendations and portfolios customized to a user's investment objective, risk appetite and time horizon.



Overview of robo-advisers in China

While established players like Betterment LLC and Wealthfront Corp. have been in existence in the U.S. since 2008, robo-advisers are comparatively new in China, with players only emerging post 2015. Besides fintechs, Chinese banks and brokerages have also joined the fray.

Chinese banks, brokerages and fintechs launching robo-advisers post-2015

Robo-adviser operator	Service	Establishment year	Minimum investment (Chinese yuan)	Average investment per user (yuan)	AUM (yuan B)
Pintec Technology Holdings Ltd. (NASDAQ:PT)	Polaris	2016	NA	5,080 [#]	1.0 [#]
Minsheng Securities Co. Ltd.	NA	2017	50,000	NA	NA
China Merchants Bank Co Ltd. (SHSE:600036, SEHK:3968, OTCPK:CIHK.Y)	Machine Gene Investment	2016	20,000 [^]	36,900 ^{^^}	10
CreditEase Corp.	Toumi RA	2016	3,460 [*]	NA	NA
Industrial & Commercial Bank of China Ltd. (SEHK:1398, SHSE:601398, OTCPK:IDCBY)	AI-Investment	2017	10,000	NA	NA
Ant Group, Vanguard Group Inc.	Bangnitou	2020	800	11,000	2.2

Data compiled Aug. 24, 2020.

NA = not available

Table features select China-based robo-advisers operated by large banks, brokerages and fintechs. We define robo-advisers as digital platforms that offer algorithm-based investment recommendations and portfolios customized to users' investment objective, risk appetite and time horizon. Platforms that employ artificial intelligence to match investors with products suited for their risk level without offering automated asset allocation services are excluded.

[#] Figure reflects the average investment per user and total AUM across both Polaris and Hongdian, Pintec's fund distribution platform.

^{*} Minimum investment for Toumi RA is US\$500, which is converted to Chinese yuan based on the exchange rate of US\$1 to 6.919 yuan as of Aug. 24, 2020.

[^] Figure as of 2016.

^{^^} Figure as of 2017.

Sources: Company releases; Financial Times; Reuters; The Wall Street Journal
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Unlike their Western counterparts, which can make investment decisions on behalf of their clients, China-based robo-advisers tend to be more restricted. They typically provide portfolio recommendations but the investment decisions ultimately have to be undertaken by users due to regulatory limitations.

China's pilot launch of a mutual funds advisory scheme in October 2019 may, however, ease this restriction. The scheme will allow asset managers and fund distributors to provide customized investment advice and maintain discretionary control over clients' investment portfolios, which will be constructed with publicly offered mutual funds. Robo-advisers operating under this scheme will therefore be allowed to execute trades automatically without requiring client consent each time, providing a more seamless experience for users.

The China Securities Regulatory Commission launched the scheme with the aim of promoting an alignment of interests between investors and fund distributors. Traditionally, China's asset management industry has been sales-oriented, as fund distributors generate revenue from transaction fees on the products they sell. This scheme will see a shift toward a fee-based advisory model, with providers charging a fee of no more than 5% of the clients' net asset values in exchange for providing asset allocation services tailored to those customers' financial needs.

Mutual funds advisory scheme may propel growth in automated investment advisory providers

According to a June article from China News Service, at least 18 financial institutions have secured mutual fund advisory licenses to serve domestic investors. Chinese citizens had roughly 17.7 trillion yuan (\$2.6 trillion) invested in publicly offered mutual funds at the end of July, based on data from the Asset Management Association of China.

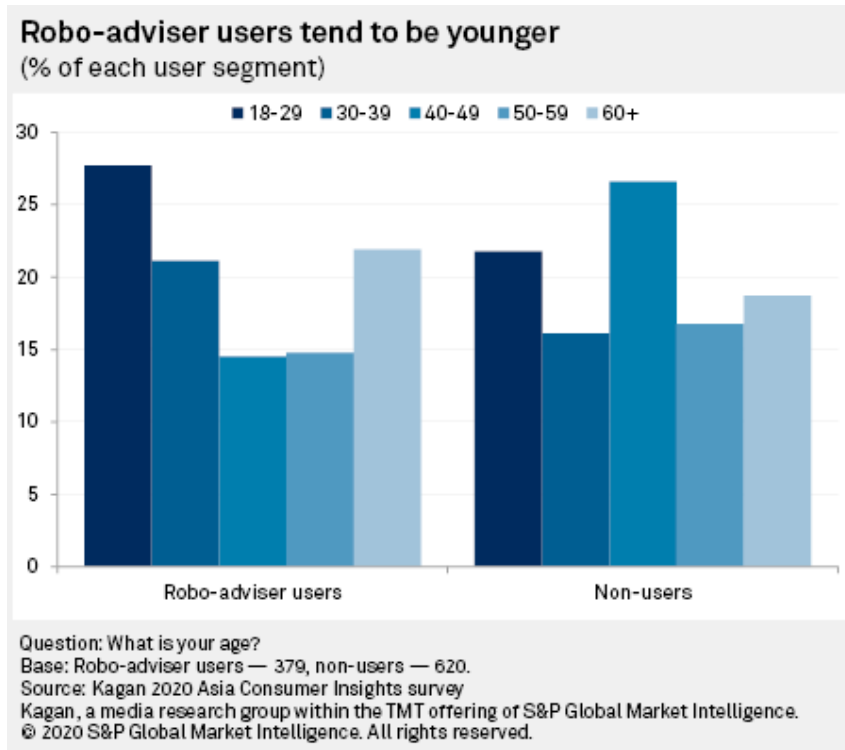
The scheme appears to be driving growth in the number of robo-advisory providers, a trend that will likely benefit from strong consumer appetite for such services. Asset managers and fund distributors have been turning toward technology to deliver customized investment advice, which is perhaps a more cost-efficient and scalable approach to serving retail investors with smaller portfolios than relying on human advisers to provide offline advice.

Vanguard Group Inc. and Ant Group Co. Ltd., for instance, formed a joint venture last year to launch Bangnitou, a robo-advisory service which is accessible via Alipay. Launched in April, the feature saw strong traction, with 200,000 users investing a total of 2.2 billion yuan (\$318 million) within the first 100 days, according to an Ant regulatory filing. This is more than twice the assets managed by Pintec Technology Holdings Ltd.'s Polaris, which was launched in 2016. Available to over 1 billion Alipay users, Bangnitou's appeal might be due to how accessible it is to smaller investors. It has a minimum investment threshold of only 800 yuan (\$116), which is far below other services, and an annual fee of 50 basis points.

In August, Teng An Fund, Tencent Holdings Ltd.'s fund distribution unit, began a trial of its fund advisory services, which will be made available on Tencent's messaging app, WeChat, upon official launch. With over 1.1 billion WeChat users, the service may see a comparable uptake to Bangnitou.

Profiling robo-adviser users in China

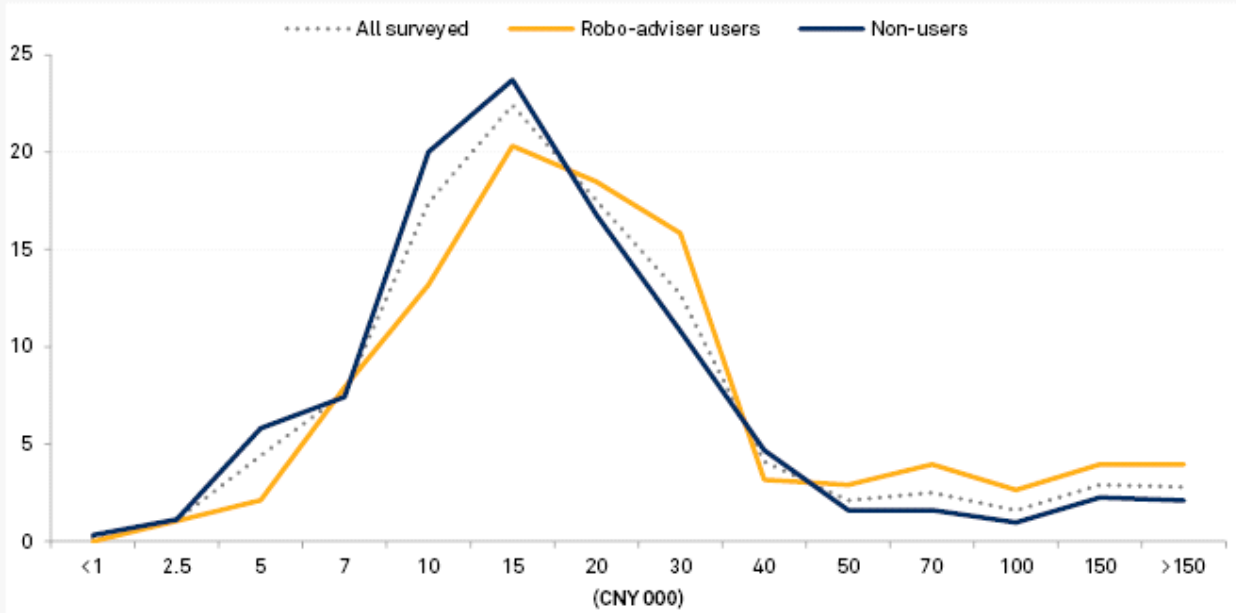
Users of robo-advisory services tend to be younger (49% aged below 39), more educated (68% finishing tertiary education) and living in metropolitan areas with population of more than 5 million (54%). Interestingly, respondents aged 60 and above also showed considerable interest in robo-advisory services.



If we plot the monthly income distribution of our survey respondents, the distribution for robo-adviser users appears slightly skewed toward the higher incomes, suggesting that users are relatively richer than non-users. In particular, robo-adviser users had a higher share of respondents with monthly income of 50,000 Chinese yuan or higher compared to non-users.

Robo-adviser users tend to have higher monthly income

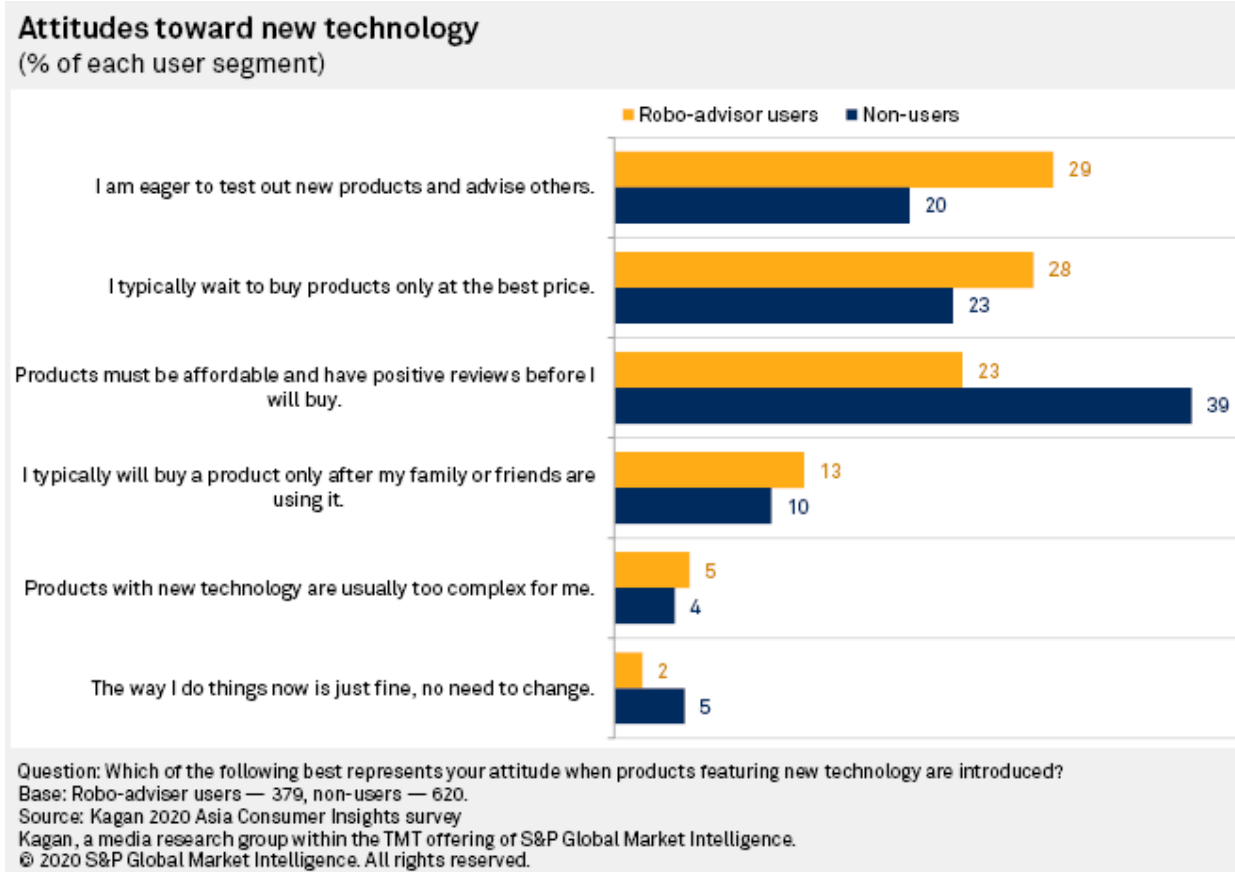
(% of each user segment)



Question: What is your total monthly household income?
 Base: All surveyed — 1,000, robo-adviser users — 379, non-users — 620.
 Source: Kagan 2020 Asia Consumer Insights survey
 Kagan, a media research group within the TMT offering of S&P Global Market Intelligence.
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Another factor that set robo-adviser users apart from non-users was their eagerness to test new products and advise others. Robo-adviser users were more likely to be early adopters of new technology (29%) compared to non-users (20%). Robo-adviser users also tended to own Apple devices. For instance, 20% of robo-adviser users said they owned a MacBook and 43% owned an iPhone, but for non-robo-adviser users these numbers dropped to just 5% and 29%, respectively.

Non-users seemed to be more cautious toward new technology, with 39% indicating that affordability and positive reviews were important before they tried new technology. Conversely, only 23% of robo-adviser users expressed similar inhibitions.



Data presented in this article was collected from the Kagan 2020 Consumer Insights survey in China. The online survey consisted of 1,000 adult internet users and was completed during the second quarter of 2020. Data from the survey has a margin of error of +/- 3% at the 95% confidence level. Percentages are rounded up to the nearest whole number.

To submit direct feedback/suggestions on the questions presented here, please use the "feedback" button located above, directly under the title of this article. Note that while all submissions will be reviewed and every attempt will be made to provide pertinent data, Kagan is unable to guarantee inclusion of specific questions in future surveys.

As of Sept. 9, US\$1 was equivalent to 6.83 Chinese yuan.

For more information about the terms of access to the raw data underlying this survey, please contact support.mi@spglobal.com.

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