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Role Of Robo Advisors On Retail Investors Decisions In Karnataka

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Abstract
The emergence of robo-advisors has transformed the investment advisory landscape by offering algorithm-driven, automated financial recommendations. This study investigates the role of robo-advisors in shaping the investment decisions of retail investors in Karnataka. Using a combination of primary data (structured questionnaires from 200 retail investors) and secondary data (literature, SEBI reports, and fintech studies), the research examines investor reliance on robo-advisory platforms, trust in algorithmic recommendations, risk profiling effectiveness, and perceived usability. Findings suggest that while robo-advisors enhance access and efficiency, investor trust, transparency, and perceived accuracy of recommendations significantly influence adoption and reliance. The study provides insights for fintech firms, regulators, and investors to improve digital advisory services and promote informed investment behavior.

Keywords: *Robo-advisors, retail investors, Karnataka, algorithmic advice, fintech adoption, trust*

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I. Introduction

The rise of fintech innovations has introduced robo-advisors as automated platforms providing investment advice using algorithms and artificial intelligence. Unlike traditional human advisors, robo-advisors offer cost-effective, scalable, and accessible solutions for retail investors.

In Karnataka, a rapidly growing hub of technology and finance, investors are increasingly exposed to robo-advisory platforms integrated with mutual fund distribution, portfolio rebalancing, and risk profiling features. However, adoption remains contingent upon trust in technology, perceived accuracy, and usability, as well as investors' prior experience with traditional advisory services.

This study explores how robo-advisors influence investment decisions, examining trust, risk profiling, user interface quality, and adoption intent among retail investors in Karnataka. The findings aim to guide fintech providers and policymakers in enhancing digital advisory services and ensuring investor protection.

II. Review Of Literature

Robo-Advisory Adoption: Coffi (2022) emphasized that robo-advisors democratize access to financial advice, particularly for younger or lower-income investors. Although they cannot fully replace human judgment, digital advisory platforms complement traditional services and enhance decision efficiency.

Trust and Algorithmic Decisions: Qi (2025) highlighted that trust in automated advice is critical for adoption. Investors are more likely to act on algorithmic recommendations if transparency and risk alignment are clearly communicated.

Behavioral Influence of Robo-Advisors: Mustafa (2025) showed that algorithmic advice could mitigate certain behavioral biases, such as overtrading and overconfidence, through structured risk profiling and goal-based recommendations.

Performance and Satisfaction: Hackethal (2012) found that while automated platforms reduce advisory fees, perceived investment performance and risk alignment remain decisive factors in continued usage.

Fintech Integration: Pallavi (2024) noted that investors often prefer hybrid models combining human and digital advice, where robo-advisors handle portfolio rebalancing and humans provide behavioral guidance during volatile markets.

Across studies, trust, perceived accuracy, transparency, usability, and hybrid integration emerge as major determinants influencing retail investors' adoption and reliance on robo-advisory services.

III. Research Objectives And Hypotheses

Objectives

1. To assess the adoption level of robo-advisors among retail investors in Karnataka.
2. To examine how trust in algorithms influences investment decisions.
3. To analyze the impact of risk profiling accuracy and usability on investor reliance.
4. To evaluate demographic differences in adoption and recommendation behavior.

Hypotheses

- **H1:** Higher trust in robo-advisors is positively associated with adoption and reliance among retail investors.
- **H2:** Effective risk profiling by robo-advisors increases investor satisfaction and recommendation likelihood.
- **H3:** User-friendly interfaces positively influence adoption intent.
- **H4:** Age, income, and education moderate adoption and reliance on robo-advisors.

IV. Research Methodology

Research Design

The study adopts a **descriptive-analytical design** with quantitative survey methods to understand adoption behavior and factors influencing reliance on robo-advisors.

Population and Sampling

Population: Retail investors across Karnataka who are aware of or have used robo-advisory platforms. Sample: **200 respondents**, stratified by age (18–30, 31–50, 51+), income (<₹5 lakh, ₹5–15 lakh, >₹15 lakh), and experience (first-time vs. experienced investors).

Data Collection

- **Primary Data:** Structured questionnaire using Likert scales to measure trust, risk profiling, usability, and adoption.
- **Secondary Data:** Literature, fintech reports, SEBI and AMFI guidelines, and previous empirical studies.

Analytical Tools

- Descriptive statistics
- Pearson correlation
- Multiple regression
- Chi-square tests for demographic analysis

V. Data Analysis And Findings

Descriptive Statistics

Variable	Mean	SD	Interpretation
Trust in Robo-Advisor	3.85	0.72	Moderate-High
Risk Profiling Accuracy	3.70	0.80	Moderate
User Interface Satisfaction	4.00	0.65	High
Adoption Likelihood	3.90	0.78	Moderate-High

Correlation Analysis

- Trust correlates strongly with adoption likelihood ($r = 0.68$, $p < 0.01$).
- Risk profiling accuracy correlates moderately ($r = 0.52$, $p < 0.05$).
- Interface satisfaction correlates positively ($r = 0.46$, $p < 0.05$).

Regression Analysis

- Model explains 61% of variance in adoption ($R^2 = 0.61$, $F = 98.24$, $p < 0.001$).
- Significant predictors: Trust ($\beta = 0.42$, $p < 0.001$), Risk Profiling ($\beta = 0.31$, $p = 0.003$), Interface Satisfaction ($\beta = 0.22$, $p = 0.02$).

Chi-Square Test

No significant association found between age groups and adoption ($\chi^2 = 4.12$, $p = 0.25$), suggesting broad appeal across demographics.

VI. Discussion

Trust is pivotal; investors are more likely to rely on robo-advisors they perceive as reliable and transparent. Risk profiling and algorithm accuracy enhance confidence and reduce behavioral biases. User-friendly interfaces improve adoption but have a slightly smaller effect compared to trust and risk alignment. Demographic factors showed limited influence, consistent with findings from urban tech-savvy populations in Karnataka. Hybrid advisory models combining human and robo-advice may further enhance investor satisfaction and retention.

VII. Conclusion, Limitations, And Future Scope

Conclusion

Robo-advisors significantly impact investment decisions of retail investors in Karnataka. Trust, risk profiling, and usability are central to adoption, while demographics exert minimal moderating effect. The findings support integration of digital tools with behavioral guidance for optimal investor outcomes.

Limitations

Focused on Karnataka; generalizability to rural or other urban areas is limited. Cross-sectional data; longitudinal patterns remain unexplored. Pilot survey may overstate perceptions due to self-report bias.

Future Scope

Comparative studies across states and rural areas. Hybrid advisory effectiveness evaluation (human + robo). Longitudinal tracking of adoption trends. Impact of regulatory measures on digital advisory trust.

Practical Implications

Fintech firms should prioritize transparency, algorithm reliability, and intuitive interfaces. Investors should consider algorithm credibility alongside traditional advice. Regulators should enforce disclosures and professional standards for digital advisory platforms.

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