FINANCIAL PLANNING STANDARDS BOARD

GLOBAL PERSPECTIVES

Fintech and the Future of Financial Planning

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FPSB'S VISION

To establish financial planning as a global profession and the CFP marks as the global symbol of excellence in financial planning.

FPSB'S MISSION

Financial Planning Standards Board Ltd. (FPSB) is the global professional standards-setting body for financial planning, that manages, develops and operates certification, education and related programs for financial planning organizations so they may benefit the global community by establishing, upholding and promoting worldwide professional standards in financial planning. FPSB's commitment to excellence is represented by the marks of professional distinction – CFP, CERTIFIED FINANCIAL PLANNER and CFP.

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Introduction

It's hard to imagine a world without technology. With few exceptions, it permeates almost every aspect of our lives on a daily basis – from how we work, to how we communicate, to how we live.

Now financial technology, or "fintech," is transforming the way people think about, access, invest, save and spend money. Fintech – the technology that makes financial systems more efficient and user-friendly, and relies on online networks and new technologies, such as machine learning/artificial intelligence, big data analytics, automated investment tools, block chain/distributed ledger, the internet of things and financial app creation tools – is bringing with it the potential to impact the financial well-being of billions of people, and transform financial services as we know it.

Just as the late Steve Jobs of Apple promised that the iPod would put "1,000 songs in your pocket," fintech has the potential to make an entire suite of financial services available to consumers in much the same way – through mobile apps, web-based platforms and software that let people interact with their money, anytime, anywhere, with or without the intervention of a qualified financial professional. And this functionality, in turn, supports and drives the emergence of automated advice tools and platforms.

For the last two years, Financial Planning Standards Board Ltd. (FPSB), the nonprofit professional standards-setting body for the global financial planning profession, has examined how the advent of fintech platforms and tools and automated advice could shape the future of financial planning. In 2015, we conducted research on the potential impact of automated advice, getting 92 responses from CERTIFIED FINANCIAL PLANNER professionals and FPSB member organizations in 20 territories. In 2016, we expanded the scope of our research

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on automated advice to include questions about the impact and implications of fintech. In 2016, we heard from our 26 member organizations and almost 1,700 CFP professionals in 29 territories.

FPSB's *Fintech and the Future of Financial Planning* report presents our research findings, along with additional insights from various FPSB discussions of automated advice and fintech, in the following six categories:

1) **Financial Services Industry** – What is driving the demand for fintech tools? What platforms and tools are likely to be successful? Is it evolution or revolution?
2) **Practice of Financial Planning** – What is the role for fintech in financial planning? Can parts of the financial planning process be automated? Are financial planners who believe humans can't be replaced by fintech prescient or complacent?
3) **Consumers** – Which consumers will/should use automated advice tools? What protections need to be in place?
4) **Future Innovations** – Are all-knowing fintech tools possible? Is so, will they become trusted allies or creepy masters?
5) **Regulation/Oversight** – Can regulators adequately oversee such a dynamic and complex field? Where should they focus?
6) **Financial Planning Profession** – How does the global financial planning community adjust to automated advice to ensure that advice from a competent and ethical professional adviser continues to be valued around the world?

We prepared our report to start a conversation within the global financial planning profession, and among our many stakeholders around the world. Building on the insights of CFP professionals and FPSB member organizations, and the significant momentum occurring in the fintech and automated advice space, FPSB wants to explore the implications for the consumers and providers of financial planning advice globally. FPSB wants to ensure that, around the world, consumers will have access to financial advice that is in their best interests from humans (or technology) competent to provide that advice in an ethical manner. We conclude our report with considerations for how the global financial planning community and our stakeholders can address the implications of fintech and automated advice on the future of financial planning.

Fintech and the Financial Services Industry

In response to FPSB's 2015 survey, CERTIFIED FINANCIAL PLANNER professionals reported that use of automated advice tools was not widespread globally, but they believed that it was likely to grow in the following 12 to 18 months. In 2016, some FPSB member organizations reported few or no direct-to-consumer automated advice platforms in their territories. However, most FPSB member organizations reported an increased prevalence of direct-to-consumer automated advice platforms and fintech startups/apps, crowdfunding platforms, asset management software and sales support tools for financial advisers and financial services firms.

FPSB's member organization in Brazil reported more than 300 fintech startups in its territory as of November 2015, with most aimed at consumers, but also being used by financial advisers to improve client relationships. In September 2016, the UK's Financial Conduct Authority announced it was supporting nine companies to bring automated advice models to the market "as a means of giving consumers more access to affordable advice."

In 2016, FPSB member organizations indicated that reasons for the increase of automated advice and fintech tools in their territories are due to: demand from a younger, more technology-savvy consumer demographic; evolution of mobile technology; promotion of the technology by regulators; demand created by media "buzz;" product providers looking to expand their client base in a cost-efficient way; and pressure on financial services providers to secure a space in the fintech market "before it's too late." One FPSB member organization noted that while the level of excitement in the territory was high, the number of automated advice providers was few, mostly due to existing regulatory roadblocks. Another noted that while fintech and automated services were being established in the brokerage sector, other sectors such as banking, insurance and financial planning were not seeing much in the way of new fintech developments.

Since FPSB's initial survey in 2015, media articles have been discussing the challenges of delivering "direct-to-consumer" (B2C) automated advice. In some instances, the annual business growth rate of automated advice providers is falling in the face of increased competition and the challenge of profitability, due to high client-acquisition costs, low average account sizes, and modest lifetime revenue from the clients acquired. Technology strategists posit that automated advice providers will need to shift from a B2C model to an "adviser support" (B2B) model, and that the emergence of automated advice providers and platforms was a welcome catalyst for the financial advice sector to reinvest in financial advice technology and to clearly define the value of a human adviser.

While most industries and professional services around the world have seen rapid adoption of technology in recent years, it appears that the global financial planning community is taking a more deliberate approach. According to our 2016 research, this is largely due to:

- Comfort (either real or unfounded) that the professional service of human-delivered financial planning cannot yet (and likely will not in the near future) be replicated by automated tools;
- The lack of financial planning fintech tools that can support the holistic, integrative needs of the financial planning process;
- A “wait-and-see” attitude as the developers of fintech innovations aggressively compete for market share with still-evolving tools and automated advice platforms;
- Concerns over the intent of automated advice providers and other fintech tool developers – are the tools and platforms being driven by product distribution interests?; and
- Concerns that automated advice will devalue, or disintermediate, the role of the professional adviser, to the detriment of both the financial planning profession and the public.

A number of CFP professionals mentioned the ability to attract young financial planners to the profession as a positive outcome of the growing fintech space. One respondent said, “We can make financial planning more approachable to recruit younger planners who already conduct their lives on social media and with technology.

While many financial planners are positive about fintech allowing them to work with the mass market and those who are younger, with lower incomes or lower asset levels, financial planners have mixed views on the benefits of doing so. Some financial planners believe that a mass market approach will lead to lower margins and make financial practices less profitable. Others believe the cost savings from using fintech tools will offset fee compression.

As the fintech industry, and technology in general, matures, CFP professionals will need to stay abreast of changes and keep an open mind about what tools will serve their clients’ best interests. While some planners may wish to wait and see how the technology develops, the time for waiting may have passed. PricewaterhouseCoopers recently said in a report on The Future Shape of Financial Services in Africa, “To succeed in business today, you don’t need a digital strategy; you need a business strategy… for the digital age.”

Fintech and the Practice of Financial Planning

FPSB asked the global CERTIFIED FINANCIAL PLANNER professional community which aspects of the process and practice of financial planning could benefit, and which could suffer, from being delivered using fintech tools. The responses ranged from an embrace of emerging technology to a sense that the client-centric financial planning process couldn't be adequately performed by non-human applications, to a lot of uncertainty as to what the opportunities and threats of fintech and automated advice will be for financial planning and financial planners.

Fintech as Helpmate

In 2015, financial planners saw automated advice tools as both a threat and an opportunity, in nearly equal numbers. A year later, financial planners are less concerned about the disruptive potential of fully automated advice, and are talking about fintech more as a complement to their businesses: automated advice and fintech tools enable financial planners and financial advisers to increase practice efficiencies or cost-effectiveness; serve clients who are younger, lower-income and with fewer investable assets; and free financial planners to devote more time to activities that bring added value to clients.

Financial planners see fintech as a tool to support the delivery of financial planning in the areas of: data collection, speeding up client onboarding, data aggregation, checking calculations and allocating investments; delivery of documents; updates on real-time market changes; portfolio construction and asset allocation. One financial planner proposed that anything that is rules-based, or that can be standardized in the financial planning process, will benefit from the use of fintech.

Financial planners felt that their practices will benefit most from fintech in the following areas:

1) **Increased Efficiency** – Financial planners view increased levels of efficiency as the greatest benefit that fintech tools, and technology in general, can provide. Financial planners cite the greatest opportunities fintech presents as the ability to: automate back-office and administrative tasks; speed up reporting to clients; and provide real-time, up-to-date information to respond to client questions more efficiently.

2) **Accuracy** – Planners use fintech to improve the accuracy of analysis of large amounts of data, with regard to information input, calculations and recommendations. They cautioned, however, that recommendations provided by the fintech tool assume the data input is correct and sufficient, and that the algorithms are programmed and functioning properly.

3) **Compliance and Disclosure** – Planners see fintech as a way to manage "know your client," transparency and disclosure requirements through automation to ensure that all requirements have been met.
4) **Bias, Conflicts and Emotions** – Planners see fintech as a way to reduce the potential for biases and conflicts of interest in the products or allocations chosen, or recommendations made, by financial planners. (Several research respondents cautioned that biases of the creators of the fintech applications will need to be similarly managed to ensure systems generate appropriate client recommendations and products.) Financial planners suggest that fintech can take the emotion out of the decision-making process for both the adviser and the client, and do a better job of providing an impartial recommendation that best suits the client's needs.
5) **Engaging Clients** – Financial planners cited the opportunity to better engage clients as another positive aspect of fintech. More specifically, financial planners said fintech can make the client experience effective and engaging; it presents excellent opportunities to interact and engage with clients; it leverages the power of technology to more fully include the client in the planning; and it enables financial planners to spend more time with clients in a meaningful way. In a nod to the power of including clients more in the financial planning process and their willingness to engage with fintech tools, a recent study from a U.S.-based financial planning software company (MoneyGuidePro) found that when advisers input goals on behalf of the client, they included an average of 2.5 goals; when clients input their own goals into the software, they included an average of 7.5 goals.
6) **Real-time Big Data** – Planners see Big Data (i.e., extremely large data sets that can be analyzed computationally to reveal patterns, trends, and associations, especially relating to human behavior and interactions) as a key support to clients and financial planners in terms of understanding real-time market and client changes, and adjusting strategies and tactics accordingly. Planners welcome the ability to automate portfolio rebalancing, and prompt clients to act in response to real-time risks and opportunities.
7) **Scenario Planning** – Planners see value in the ability to use fintech to collaborate with clients, real-time, in discussing a wide range of strategies and cash flow scenarios.

8) **More Empowered and Financially Literate Clients** – Financial planners use fintech to provide clients access to their own information, allowing clients to track the progress of their financial plans real-time, through user-friendly applications. Financial planners see fintech promoting a more collaborative type of engagement with clients, with a fintech-enabled financial planning engagement being client-driven rather than adviser-driven. Financial planners are also open to clients taking a "do-it-yourself" approach to manage some aspects of their finances.

The Bionic Adviser

In response to FPSB's 2015 survey, financial planners said automated advice tools should not be viewed as a replacement for human interaction with a client, and they're sticking with that. In 2016, financial planners feel that the practice of financial planning relies on human interaction and that the "personal touch," the listening, feeling, exploring and interpreting of qualitative information that is central to the financial planning process, cannot be replaced by automated advice tools. One planner commented, "The most important planning outcomes for my clients cannot be replicated by an algorithm. Often, it's in the second or third hour of conversation in which we are reviewing the finer points of a client's life, goals, family, fears or health that we get to the really central issues of the planning process."

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One financial planner commented that the holistic financial planning approach is not one that artificial intelligence can easily grasp, let alone master, as of yet. "Anyone trying to automate the financial planning process is going to do a very poor job of realizing the efficiencies and nuances that become apparent when using a cross-disciplinary approach."

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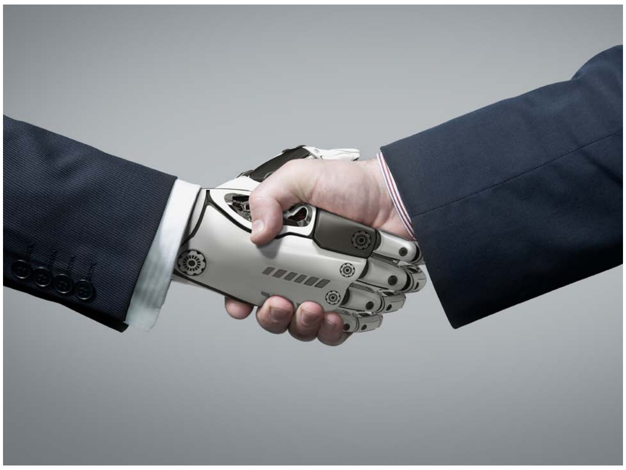
As the prevalence of fully automated investment advice and portfolio management tools grows, financial planners are going to have to demonstrate the value add of holistic planning, and the benefit of guidance from a professional adviser who can address emotional and behavioral finance issues. One planner commented, "Technology, misused,



can often lead to 'one-size-fits-all' solutions that ignore the human element and individual differences. The best planners will be the ones who can let computers do what computers are best at, and humans do what humans are best at." In the process, automated advice tools are requiring human advisers to become "more human" – the human relationship becomes the value proposition – which is seen as a good thing for the financial planning profession.

While the majority of financial planners considered that the interpersonal ("art") aspect of financial planning cannot be easily replicated by technology, some financial planners appreciated fintech's ability to raise the importance of analytics-based recommendations to balance those made through intuition or "gut feeling." The fintech applications will compensate for the financial planner's emotions, biases and conflicts, and the hybrid automated/human model will provide for better advice and better consumer outcomes.

According to a September 2016 *Wall Street Journal* article, "artificial intelligence should enable human advisers to spend more time at what they excel at — understanding the personal aspects of their clients' financial lives and building a bond of trust. Meanwhile, the computer side of the [bionic adviser] should cut the cost of organizing data, analyzing choices and delivering advice. What many advisers view as a threat seems much more likely to leave almost everyone better off."

Fully Automated Advice

Responses overwhelmingly said that it's too early to tell if automated advice tools and platforms that do not involve human advisers (fully automated advice) will be successful. To date, fully automated advice platforms have had limited success or have yet to gain traction. In territories where automated advice tools do exist, they're often limited to investment advice and portfolio management functions, and sometimes life insurance.

Several respondents to FPSB's research are concerned that, by default, automated advice tools will drive consumers to focus more on short-term,

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tactical decisions (predominantly in the area of investing), at the expense of long-term, integrated financial strategies focused on achieving financial and life goals. A financial planner commented, "Investors have a limited scope of knowledge and a focus on immediacy. They have difficulty projecting a future different from the present or immediate past. A personal sounding board is one of the most important aspects of financial advice."

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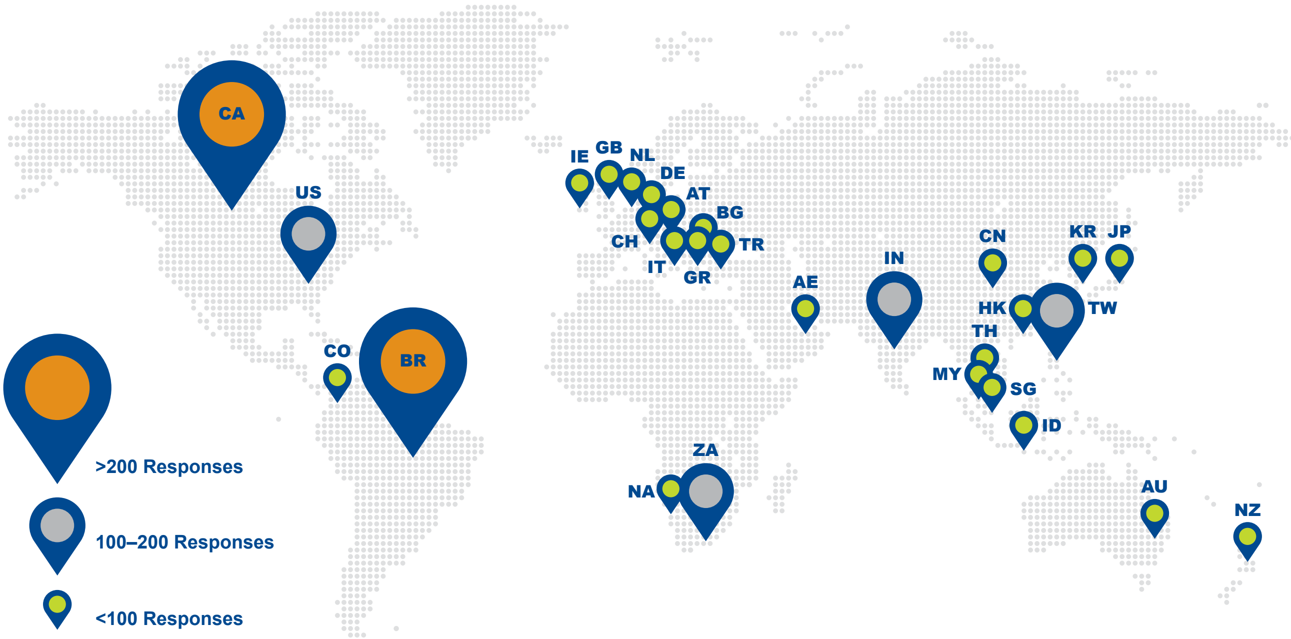
Acknowledging that not all consumers are ready (or can afford) to work with a financial planner, many respondents believe automated advice can be a good fit for those with less complex situations, those who wouldn't otherwise work with a CFP professional, those who are naturally "do-it-yourselfers," or those who are sophisticated enough to do it on their own. With some caveats, financial planners believe fully automated investment advice tools can serve as "good enough" investment advice to get young people into the market (through low-cost, ETF, life-stage funds, etc.). This was seen as better than getting "bad" advice, no advice, or having young people not participate in the financial markets. However, financial planners anticipate that, as clients' situations become more complex or as their wealth increases, they will increasingly need the knowledge and skills of a human adviser.

FPSB 2016 Financial Planner Survey Participants by Territory



One of the concerns raised by financial planners is the potential for existing clients to terminate their relationship with their financial adviser and only use fully automated advice tools. In 2015, financial planners said they expected to lose some existing clients to automated advice providers, but not necessarily revenue, as those seeking fully automated advice were likely not seeking holistic financial planning. One financial planner said, “Advisers and financial planning professional bodies need to spell out clearly the value of financial advisers, and accurately inform clients that fintech is like a ship – you still need a seasoned pilot to navigate through the ups and downs of life and choppy seas.”

Additionally, financial planners caution that automated advice tools can lead some consumers to feel overconfident (“a little knowledge is a dangerous thing”), and call for mechanisms to protect consumers from making bad or impulsive choices without the benefit of professional advice. Financial planners see the need to increase the level of financial literacy and capability of clients, and consider fintech tools a great way to deliver this financial education.

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Ultimately, financial planners hope that fintech and automated advice tools will get more people to access some type of financial advice, which will provide a stepping stone to working with a human adviser as personal situations gain complexity.

Looking to the future, financial planners expect that artificial intelligence and fintech tools will evolve and provide increasing value to the financial services marketplace. Nonetheless, financial planners maintain that human financial planners will still be needed to engage with clients, manage emotions, understand the limitations of fintech tools, and ensure each client’s individual situation is being taken into account.

If automated advice providers and platforms shift focus from “direct to consumers” to being more of a support platform for bionic financial advisers, it will support the global financial planning community’s view that tech-augmented, human financial planners and their clients will be the ultimate beneficiaries in the fintech “arms race.”

Fintech and the Consumer

In response to FPSB's 2015 survey, FPSB member organizations and CERTIFIED FINANCIAL PLANNER professionals from around the world believed that automated advice brought opportunities and threats to the financial services marketplace, potentially putting more consumers at risk while also increasing access to advice and products for larger segments of society. Some cautioned that automated advice platforms and tools could lead more people to become "do-it-yourselfers," at the mercy of an automated system that might not be able to deal with complexity or that might not advise in the client's best interests. However, others proposed that a digital democracy of social media users of all ages would provide feedback about their experiences, placing pressure on automated advice providers to respond with better products and services.

Financial planners in our 2016 survey considered a number of factors that could contribute to determining which consumers could be best suited for automated advice services, including age, comfort with technology, education level, a desire to plan on their own, physical location and net worth/complexity of circumstances. Several financial planners acknowledged that the profile of the "ideal" consumer of automated advice would likely change as more people become comfortable with the technology and as the technology evolves. Respondents to FPSB's research believe that automated advice tools should be seen as a complement to, but not a replacement for, working with competent, ethical financial planners who act in their clients' best interests.

Age and Technological Savvy

Not surprisingly, nearly half of the financial planners agreed that younger clients were likely most suited to use fully automated advice and other fintech tools, now and into the future. Financial planners responded that automated advice services could be appropriate for middle- and lower-income clients, and "HENRYs" (High

Earners, Not Rich Yet), because the scale and reach of the automated advice platforms would allow providers to service this group affordably. Other reasons why automated advice would appeal more to younger consumers included the fact that this group is: more familiar and comfortable with

technology; likely not to have enough assets (or income) to meet client minimum requirements for many financial planners; or is more likely to have simpler financial goals (e.g., pay down debt, buy a home, etc.).

A smaller number of financial planners thought that while middle-aged and older consumers did not grow up with technology, they can and will adapt to fintech services over time. Still other financial planners thought that consumers of all ages could find a use for automated advice and other fintech tools, because of their convenience, the potential for the tools to reduce the cost of financial advice, and the opportunity to improve communication between clients and their financial planners.

Net Worth and Complexity

After age, financial planners most often cited net worth and the complexity of financial situations as the characteristics that could determine whether a consumer would pursue fully automated advice. The vast majority of respondents to FPSB's surveys in both 2015 and 2016 felt that, while fully automated platforms and tools can adequately address limited scope activities (e.g., investments, mortgages, etc.), they are unlikely to be able to address the comprehensive needs or behavioral finance issues of high-net-worth financial planning clients or those with complex situations. Interestingly, these responses contrast with those in the 2016 Capgemini World Wealth Report, which found that global high-net-worth individuals' (HNWI) demand for automated advisory services increased from 48.6 percent in 2015 to 66.9 percent in 2016, while 47.5 percent of HNWIs use online peer-to-peer platforms at least weekly to learn about investment ideas. One financial planner said, "I believe all consumers would benefit, and that it is more a matter of what level, or to what degree. The wealthier an individual (or the more complicated the situation), the smaller the portion of services an automated service would likely provide, but it would still be viable and useful."

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Do-It-Yourselfers

Financial planners acknowledged that some people would prefer not to work with a financial adviser or financial planner, and that fintech tools could be a solution to help these "do-it-yourselfers" engage in financial planning on their own. Financial planners felt that some consumers are distrustful, or disenfranchised with the financial services industry (a situation not helped by the scandals, bailouts and other negative publicity highlighted during, and in the years since, the 2008 Global Financial Crisis). Financial planners also noted that some individuals don't see the value, in terms of cost, of working with a financial adviser or financial planner, and that those people may find less expensive fintech tools a more attractive option (at least at the beginning).

Physical Location

While not mentioned often, several financial planners mentioned the role that fintech could play in keeping clients in remote physical locations connected to their financial plans and financial planners. This would assume that those in remote areas have infrastructure in place that would enable them to connect to the internet, perhaps through satellite, cellular service or some other means.

Challenges and Opportunities

Financial planners found more challenges than opportunities for consumers when it comes to the use of fintech tools and platforms, particularly in the area of consumer protection. Financial planners' concerns ranged from the increased potential for cybersecurity issues and scams to an inability for consumers to conduct due diligence on recently introduced automated advice and other fintech services. Financial planners also cited low levels of financial literacy and financial capability among the general public, which could cause some consumers to make poor choices or to receive incomplete or poorly conceived recommendations based on the data they input into the tool or platform. Repeatedly, financial planners responded that the greatest potential for harm to consumers was the likelihood that automated advice tools would churn out standardized, "cookie cutter" solutions for consumers who are "forced to fit" into broad financial consumer profiles.

Financial planners noted that, at present, many automated advice tools are investment-driven, which could lead consumers to receive product-driven, versus client-centric, advice. Financial planners questioned whether fintech tools or platforms could realistically provide holistic advice, adequately assessing a person's life goals, approach to financial matters, and employee benefits, tax, investing, retirement, estate planning and insurance needs, and integrating all of those into a product or goal-specific recommendation.

Despite the challenges, financial planners also saw opportunities to use fintech to:

- Increase the public's levels of financial literacy and financial capability;
- Lower costs, thereby improving consumer access to financial advice and financial markets;
- Provide "good enough" advice and recommendations to younger people to encourage them to save and invest; and
- Increase the options for consumers to access advice and work with financial planning professionals.

Future Fintech Innovations

In 2016, FPSB asked its member organizations and CERTIFIED FINANCIAL PLANNER professionals to list the major fintech innovations that they expect will have the most impact on the delivery of financial planning and financial advice in the years to come. While a lot of responses described the advent of robo-investment advice as the innovation likely to have the most impact, responses varied among those who saw current fintech and automated advice tools as incremental innovation versus breakthrough innovation. In a September 2016 *Globe and Mail* article, John Flint, HSBC chief executive officer of retail banking and wealth management, echoed this sentiment, saying, "What most people say is innovation is developing mobile apps … These are worthy developments, but they are not imposing any significant changes on the way the financial system currently works, making disruption more of a threat than a reality."

The global financial planning community considered the following three innovations as those most likely to have the greatest impact on the future of financial advice and financial planning.

Innovation 1: Online end-to-end, omni-channel solutions will cause a shift in the model for client acquisition/engagement and advice delivery.

At present, most fintech tools are automated advice tools focused on investment/portfolio management, enabling consumers to create an account, complete some basic risk profiling, and purchase investment products.

Respondents to FPSB's survey see fintech tools evolving to: allow for a more integrated online, end-to-end solution that can onboard clients; aggregate information from every aspect of a client's financial situation (banking, investments, tax, insurance, retirement plans, estate plan, etc.); track and adapt to the client's ongoing needs, and the macroeconomic situation; and provide a more complete, interactive, real-time financial advice experience for the client. This "omni-channel" approach to advice delivery will provide

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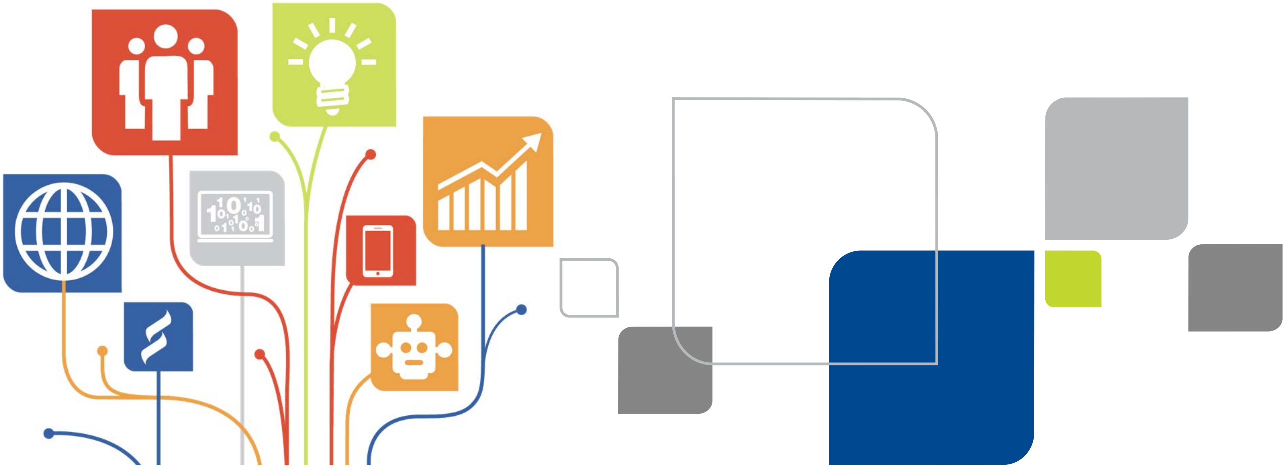


advisory firms the ability to engage with the client on the client's terms, when and how the client wants, but in a consistent way across the platform, taking into account all information and strategies previously captured and recommended to the client.

These holistic end-to-end, omni-channel fintech solutions could be used by consumers to submit information, test theories and the adviser's recommendations, and to interact in real-time with their financial adviser/financial planner.

Possible **positive** implications of Innovation 1:

- Improved, and perhaps lower-cost, access to financial advice and financial planning services for consumers
- Improved financial literacy as consumers become more engaged in participating with, and monitoring, their finances online
- More competition for client business should result in a higher standard of care experienced by clients
- Convenience for both consumers and advisers
- A more holistic view of client data
- Better transparency
- Increased operational accuracy and efficiency for financial advisers who use technology to automate aspects of their business
- An increase in paperless transactions, as financial advisers and clients move personal data and client records to the cloud
- Leaner operations within firms, as record-keeping and other tasks become automated, eliminating the need for certain personnel

Possible **negative** implications of Innovation 1:

- Increased risk/exposure to "bad advice" as consumers assume direct access to financial products, without guidance from financial professionals
- Increased difficulty for human financial advisers to differentiate the value of human advice from marketing efforts to attract consumers to automated tools
- Financial advisers may end up becoming "financial paramedics," providing emergency repair for financial plans gone wrong, as opposed to acting as "financial social workers" who facilitate a comfortable and guided journey to, and through, retirement
- Increased potential for identity theft, fraud and other types of cybersecurity issues as more personal information moves online/to the cloud
- Increased difficulty for financial advisers to be intimately involved with, and develop deeper insight into, client issues, opportunities or constraints due to data gathering and process automation

- Inaccurate information provided by users will lead to inaccurate, potentially damaging automated advice solutions
- Inability to curb emotional investing by consumers who interact less with a human adviser
- Potential ethical issues as consumers ignore “fine-print” disclosures online and fail to understand conflicts of interest within automated advice tools

Innovation 2: Integration of “Big Data”/ “Bio Data” from non-financial aspects of a consumer’s life (i.e., online social media, health, behavioral or job-related information) that will enable predictive modeling and the nimble execution of adjustments, in real-time, to a client’s financial plan.

Consumers already use online tools and personal technology to track diet and exercise habits, monitor health needs (e.g., diabetes management, family planning, etc.), engage in communities of interest to pursue hobbies and promote social values, and share aspects of their personal lives through social networks (e.g., relocations, job changes, changes in marital status/family circumstances, etc.).

Respondents to FPSB’s fintech survey predict that this non-financial information will become increasingly relevant to financial services providers in: qualifying customers for services based on their behavioral patterns and online habits; helping create more precise and relevant, real-time offerings based on the client’s life stage, interests and needs, or based on how the client is likely to be impacted by, or react to, macroeconomic changes; and enabling financial advisers to form deeper relationships with their clients and provide guidance that is likely to resonate more with, and be followed by, the client, based on a more complete view of the client’s lifestyle, social and physical needs, personal values and typical behaviors.

Possible **positive** implications for Innovation 2:

- Improved ability for consumers to track success with achieving their financial and life goals, providing real-time positive reinforcement for current behaviors
- Improved ability to track risks and tailor recommendations and appropriate products to manage them
- Improved access to financial products based on more accurate client information
- Better ability for advisers to understand actual client behavior in various circumstances and develop a more holistic approach to achieving the client’s financial and life goals

Possible **negative** implications for Innovation 2:

- Increased potential for identity theft, fraud and other types of cybersecurity issues as more personal information moves online, and clients become more comfortable integrating all aspects of their lives (and related data) into one or more online sources

- Discrimination based on pre-existing health (or other) conditions
- Lack of consumer privacy as more intermediaries (financial and non-financial) "touch" consumers' information
- Possible ethical/legal issues in the sharing and interpretation of health information with non-health-care providers

Innovation 3: The shift to online/mobile/apps will erase physical borders, dramatically expand product and service options, re-invent advisory services, empower consumers, and increase risk.

The move to online/mobile applications, especially in the banking industry, is leading the emergence of fintech in several developing markets. Access to smartphones, and the related roll-out of high-speed networks, has brought access to transacting with financial institutions to an entirely new group of financial services users. Respondents to FPSB's fintech survey see this trend continuing and expanding beyond banking-type services, possibly enabling individuals to carry access to their entire financial lives in their pockets.

Possible **positive** implications for Innovation 3:

- Improved access for consumers in remote or underdeveloped areas
- Opportunity to remind consumers of good financial habits via push notifications
- Less of a need for "brick-and-mortar" locations by financial services providers
- Ability for consumers to manage financial matters across borders (particularly useful for expatriates or those who travel frequently)

Possible **negative** implications for Innovation 3:

- Increased potential for identity theft, fraud and other types of cybersecurity issues as more personal information moves online
- Increased exposure to unregulated "offshore" and foreign exchange (forex) offerings, potentially increasing risk for fraud
- More difficulty in regulating financial services across borders
- Increased complexity in complying with tax laws, both local and across borders
- Potential confusion over in-app purchases that cause consumers to spend money without realizing it
- Implications of consumer making decisions that will substantially impact their financial well-being at the "push of a button"

Fintech and Regulation/ Oversight

In 2015 and 2016, FPSB asked its member organizations and CERTIFIED FINANCIAL PLANNER professionals about the impacts that fintech innovations might have on the regulatory landscape for financial advice and financial planning.

FPSB Member Organization View

Most FPSB member organizations have not addressed the issue of fintech or automated advice with their stakeholders, in part because the use of such tools and platforms are not prevalent in their territories. Those that have discussed fintech and automated advice with stakeholders are encountering a diversity of views about whether the topic presents an opportunity or a threat. FPSB member organizations are interested in gauging regulators' and legislators' approaches to fintech and automated advice innovations, and are likely to act on this issue over different time horizons, based on territory developments and demand.

FPSB member organizations believe fintech will require regulators to balance: reducing existing regulatory hurdles (to allow for innovation); guarding against rapid fintech innovation that could destabilize the financial services industry and create more risks for consumers and unfair competition; and avoiding diminishing the value of professional advice in an effort to increase access to automated advice (which could damage both the profession and the public).

Additionally, FPSB member organizations believe regulators should focus on:

- Preventing false or misleading claims by automated advice tools;
- Protecting consumers' interests by ensuring products recommended by automated advice tools are suitable;
- Protecting consumers (and the market) from cybersecurity threats;
- Ensuring adequate disclosure and explanation by fintech providers on the methodology they use, and the universe of products available to the automated advice tool;
- Preventing the concentration of risk, if too many consumers in a given market are in the same portfolio allocation; and
- Ensuring that regulations and legislation stay relevant in a rapidly changing technological environment.

In the majority of FPSB territories, since fintech and automated advice tools are non-existent or in their infancy, use of these tools is subject to existing rules for financial advice or financial planning. However, FPSB member organizations noted that as automated advice innovations emerge, regulators and legislators will need to develop guidance and standards for these tools and clarify how "automated advice" will be defined and regulated. This could include:

- Distinguishing between what constitutes “advice” and “information” delivered by automated advice tools;
- Regulating “advice” provided by an automated tool in the same manner as human advice, following the same consumer protection rules, including suitability and/or fiduciary requirements; and
- Requiring that any output from an automated advice tool be reviewed prior to implementation by a human financial adviser who is appropriately licensed to conduct such reviews.

Financial Planner View

In general, CFP professionals believe that the evolution of fintech may be too dynamic and complex for regulators to adequately address. FPSB research respondents suggested regulators and legislators consider the following issues:

- Fintech will likely have the greatest impact on the trading/mutual fund industry and could replace the traditional broker-dealer model.
- Fintech will have a large impact on the banking model – online/digital banking will substantially alter the retail banking model.
- Regulators/legislators will need to update requirements and practices to fit with “real-time/paperless” financial advisory engagement experiences.
- As cloud computing allows clients to maintain more information online, the threat of cybersecurity becomes an even bigger issue. Also, the physical location of servers that store cloud data will have implications with regard to financial client privacy obligations and enforcement of regulations.
- Investors in economies whose markets are underperforming may feel the need to invest “overseas” using automated investment tools, where available, without adequate protection.
- Fintech will pose a challenge for regulators in the area of foreign currency exchange (forex) and overseas remittances.

Fintech Issues for Consideration by Regulators/Legislators

FPSB asked CFP professionals what they considered to be the major fintech issues that regulators and legislators need to address. The top 10 issues were as follows:

Top 10 Fintech Issues for Consideration by Regulators/Legislators	Response Percent
1. Lack of understanding by consumers of the limitations of automated advice	65%
2. Ability of automated questionnaires, risk analysis tools and algorithms to generate suitable recommendations	41%
3. Potential conflicts of interest of automated advice providers	40%
4. Cybersecurity concerns related to automated advice (e.g., theft of data/assets, etc.)	37%
5. Regulators understanding complexity of evolving automated advice tools and platforms	32%
6. Inadequate disclosure (including advertising) to those accessing automated advice	32%
7. How execution-only platforms vet clients and determine suitability of advice	26%
8. Inadequate competence/supervision of humans that support automated advice	26%
9. Inadequate testing or supervision of the advice provided by an algorithm	25%
10. Inadequate training or competency of those developing algorithms	24%

In addition to the issues listed above, CFP professionals suggested regulators and legislators also: set parameters to encourage fintech innovation; promote awareness of scandals involving fintech; and consider the competency of the consumer who will use the automated advice tool.

Fintech and the Financial Planning Profession

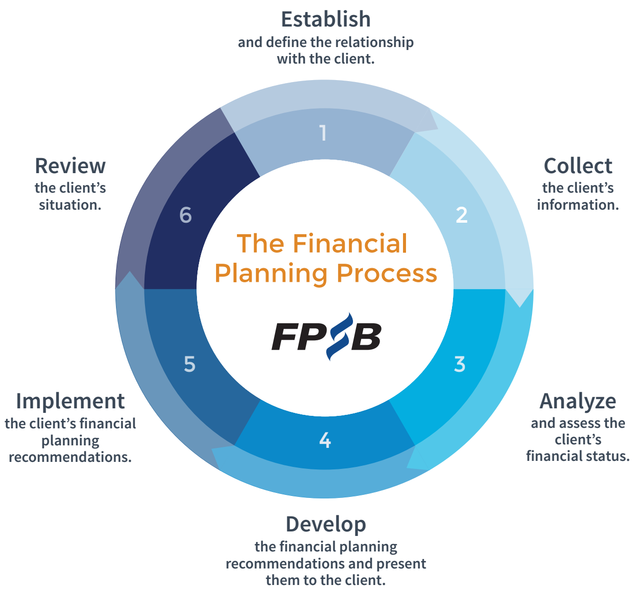
A key takeaway from FPSB's research among CERTIFIED FINANCIAL PLANNER professionals and FPSB member organizations is that momentum, however uneven, is building globally in the automated advice and fintech space, and the global financial planning community has an important role to play. FPSB encourages FPSB member organizations to discuss the findings in this report with stakeholders, and explore the implications that automated advice and fintech will have for the consumers and providers of financial planning advice globally. We present the following considerations to support the global financial planning community in its efforts to develop positions and approaches to address fintech and the future of financial planning.

1) Start a Fintech Conversation

- Engage stakeholders in a conversation on the role, limitations, opportunities and challenges automated advice and fintech pose for the consumers and providers of financial planning advice.
- Stay up to date on fintech developments in your territory, and monitor developments and trends in automated advice and fintech innovations around the world.

2) Help Define the Terminology

- Support regulatory and industry efforts to classify the output of automated advice tools (as information, guidance, execution-only services, advice or something else), and support having automated "advice" held to the same regulatory standards and requirements as advice from a human financial adviser.



3) Promote the Value of Professional, Holistic Advice from a Financial Planner

- Promote the value of financial planning, the distinction between holistic advice and limited scope advice, and the value of advice from a competent, ethical financial planner compared to automated advice.

- Engage legislators, regulators and standards-setting bodies in conversations on the role of automated advice as a complement to, not a replacement for, professional advice.
- Create messages and resources for financial planning practitioners to articulate the value of working with a CERTIFIED FINANCIAL PLANNER professional, compared to automated advice.

4) Understand and Appeal to the Consumer of Automated Advice

- Develop profiles for the likely users of automated advice to better understand this group and how to engage them on the benefits of working with a CERTIFIED FINANCIAL PLANNER professional.
- Identify trigger points for automated advice users that would lead them to seek out a professional financial planner, and develop strategies to encourage those consumers to become advised clients.
- Communicate the different consumer experiences provided by automated advice and the services offered by a competent and ethical financial planner.

5) Design the Model for the Bionic Adviser

- Identify which aspects of the financial planning process lend themselves to automation or standardization, and support the creation of financial planning software, tools and platforms that support financial planner accuracy and efficiency.
- Engage developers of artificial intelligence in assessing what elements of the financial planning process that require human intelligence now could be performed by machines in the future.
- Support the creation of financial planning fintech development hubs (“sandboxes”) to: assess development of automated advice tools to support human advisers; assist fintech/automated advice tool creators to develop more nuanced discovery/client profiling applications; promote an omni-channel fintech solution to support the delivery of financial planning; and engage global technology firms (e.g., Google, Amazon, Facebook, etc.) on integrating Big Data/Bio-Data into financial planning software, tools and practices.
- Guide the global financial planning community on how to establish and maintain tech-enabled financial planning practices.

6) Upgrade Financial Planning Professional Standards/Certification Requirements

- Add or expand content in the CFP certification education program to deepen CFP professionals’ familiarity with: fintech/automated advice; behavioral finance, client engagement and soft skills to support deeper levels of client engagement and empowerment; and understanding financial planners’ own biases, emotions and conflicts.

7) Help Level the Playing Field

- Engage legislators, regulators and industry on the development of guidance, policies and procedures for automated advice creators and providers on:
  - – Use and supervision of automated advice tools;
  - – Determining when the output of an automated advice tool constitutes advice;
  - – Management of conflicts of interest and disclosure requirements in the delivery of automated advice;
  - – Registration/approval of the automated advice platforms and tools; and
  - – Selection of products and services to be provided through automated advice platforms and tools.

8) Help Strengthen Consumer Protections

- Work with regulators and fintech developers to build consumer protection elements into fintech and automated advice tools and platforms, including:
  - – The use of appropriate risk profiling;
  - – Ensuring use of up-to-date client information;
  - – Mandatory client check-ins/reviews of the appropriateness of the automated advice based on (potentially changing) client objectives; and
  - – Clearly visible, easily-understood warnings to clients that in the absence of good/sufficient information, the output from the automated advice tool may not be appropriate. (Note: Consumers of automated advice will need to acknowledge the correctness of the data supplied, creating some level of responsibility on the part of the user for the automated advice provided.)

- Propose a due diligence function to regulators and fintech developers to evaluate the algorithms and recommendations provided by fintech and automated advice tools and platforms.
- Encourage regulators to protect clients from unsuitable products or recommendations by requiring a fiduciary level of care for “advice” provided by automated advice platforms and tools.
- Encourage regulators to discourage the provision of complex products to retail customers via automated advice tools.
- Develop a financial planning community position on cybersecurity.
- Develop a financial planning community position on protecting consumers from scams.

9) Promote Increased Financial Literacy/Capability

- Partner with stakeholders to develop and deliver financial education/literacy/capability programs for consumers that can be delivered through fintech and automated advice channels.

FPSB Members

Australia	Financial Planning Association of Australia Ltd. (FPA Australia)
Austria	Österreichischer Verband Financial Planners (OVFP)
Brazil	Instituto Brasileiro de Certificação de Profissionais Financeiros (IBCPF)
Canada	Financial Planning Standards Council (FPSC)
China	Financial Planning Standards Board China (FPSB China)
Chinese Taipei	Financial Planning Association of Taiwan (FPAT)
Colombia	Asociación Colombiana de Planeación Financiera (ACPF)
France	Association Française des Conseils en Gestion de Patrimoine Certifiés (CGPC)
Germany	Financial Planning Standards Board Deutschland (FPSB Deutschland)
Hong Kong	Institute of Financial Planners of Hong Kong Ltd. (IFPHK)
India	Financial Planning Standards Board India (FPSB India)
Indonesia	Financial Planning Standards Board Indonesia (FPSB Indonesia)
Ireland	Financial Planning Standards Board Ireland (FPSB Ireland)
Israel	Union of Financial Planners in Israel (UFPI)
Japan	Japan Association for Financial Planners (JAFP)
Malaysia	Financial Planning Association of Malaysia (FPAM)
Netherlands	Federatie Financieel Planners (FFP)
New Zealand	Institute of Financial Advisers (IFA)
Rep. of Korea	Financial Planning Standards Board Korea (FPSB Korea)
Singapore	Financial Planning Association of Singapore (FPAS)
South Africa	Financial Planning Institute of Southern Africa (FPI)
Switzerland	Swiss Financial Planners Organization (SFPO)
Thailand	Thai Financial Planners Association (TFPA)
Turkey	Finansal Planlama Derneği (FPD)
United Kingdom	Chartered Institute for Securities & Investments (CISI)
United States	Certified Financial Planner Board of Standards, Inc. (CFP Board)

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