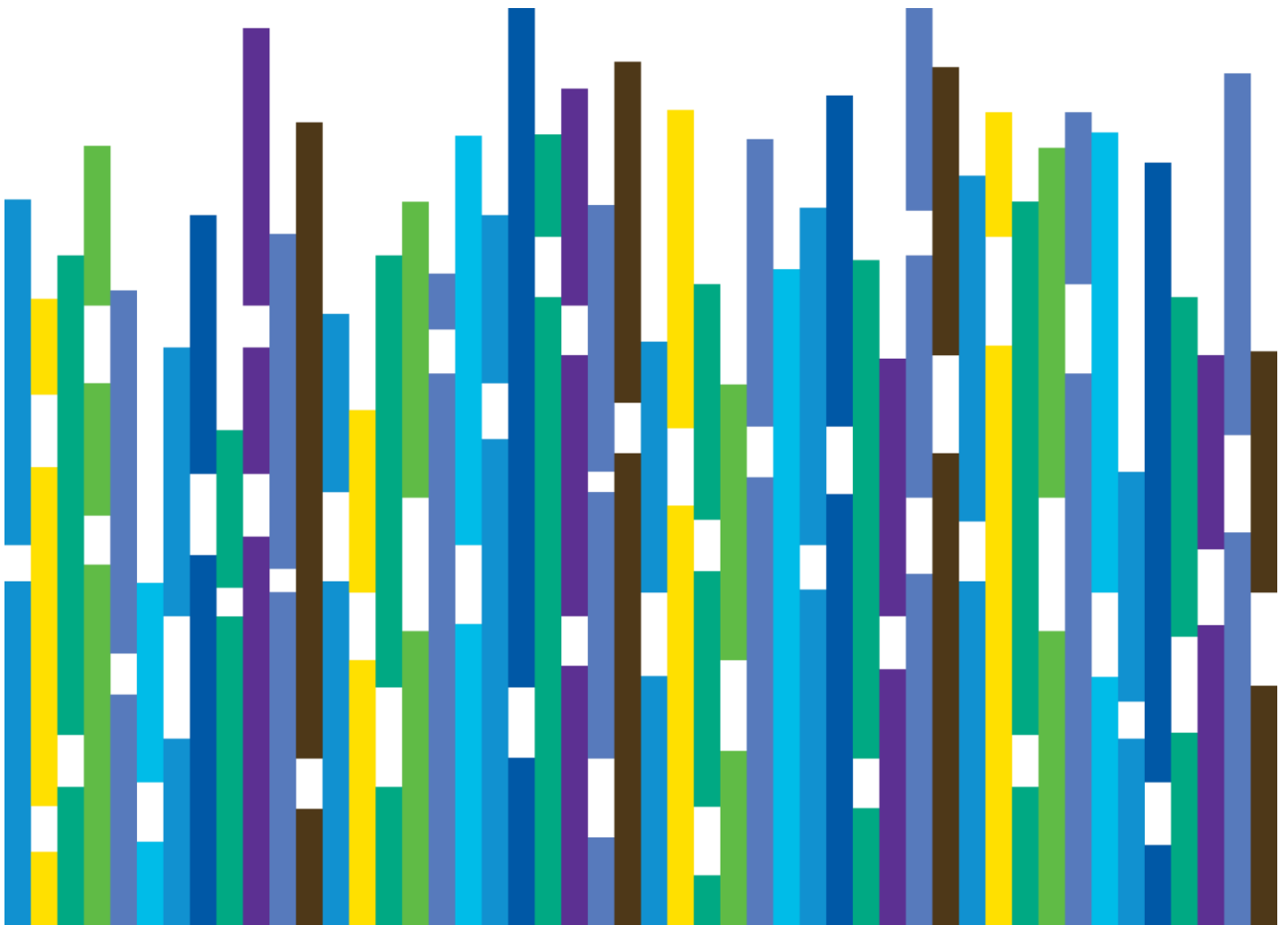




CFA Institute

FINTECH SURVEY REPORT

April 2016



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About the Survey

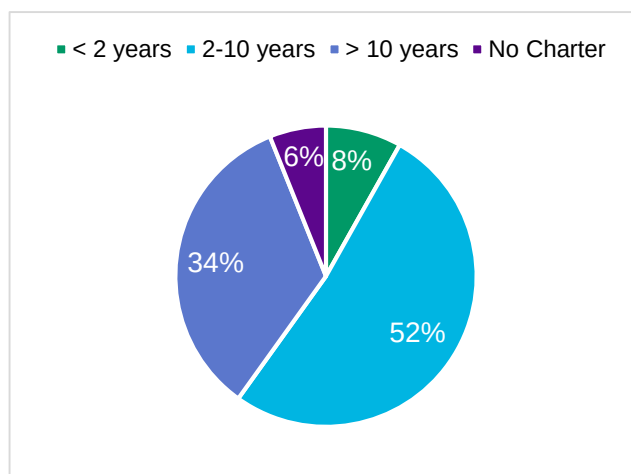
Financial Technology (FinTech) is attracting increasing attention from consumers, investors, the investment management industry and regulators across the globe. Most recently, the Joint Committee of the European Supervisory Authorities (European Banking Authority, European Insurance and Occupational Pensions Authority, and European Securities and Markets Authority) requested comments on a Discussion Paper on the topic of automation in financial advice.

The ambition of this consultation was to provide input into the debate on whether the three ESAs need to adopt measures, if any, in order to promote 'the safety and soundness of markets and convergence in regulatory practice'. The Discussion Paper presented a preliminary assessment of the main characteristics of automated financial advice tools as well as their potential benefits, costs, and risks.

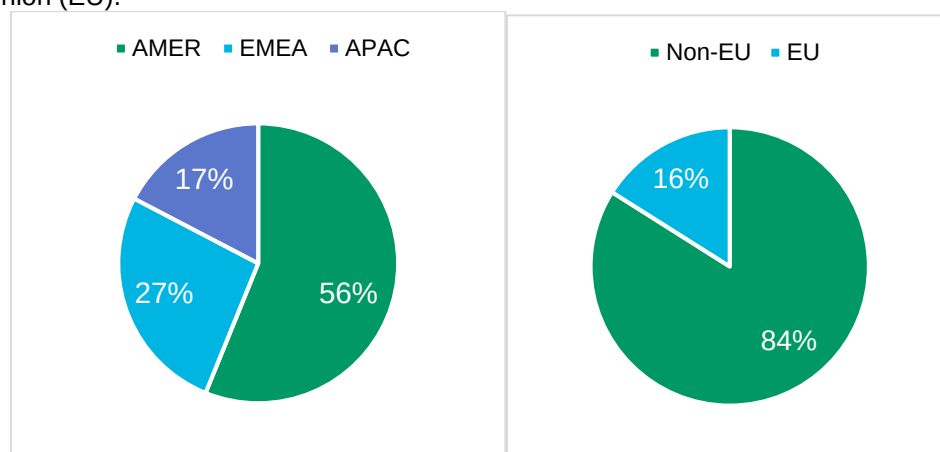
In order to inform the policy debate, CFA Institute conducted the following global member survey using our Capital Markets opt-in survey panel. The survey was sent to members on the 5th of February 2016 and closed on the 19th of February 2016. 3,803 members were invited to participate in the survey and 775 valid responses were received for a response rate of 20% and a margin of error of ± 3.2 .

Respondent Profile

Of the 3,803 members surveyed, 92% of respondents are CFA charter holders. The breakdown of respondents' charter age is shown in the following chart. The vast majority have had their charter for more than 2 years.



The majority of respondents (56%) are from the Americas region (AMER), 27% from Europe, the Middle East and Africa (EMEA), and 17% from Asia-Pacific (APAC). Among all respondents, 16% are from the European Union (EU).



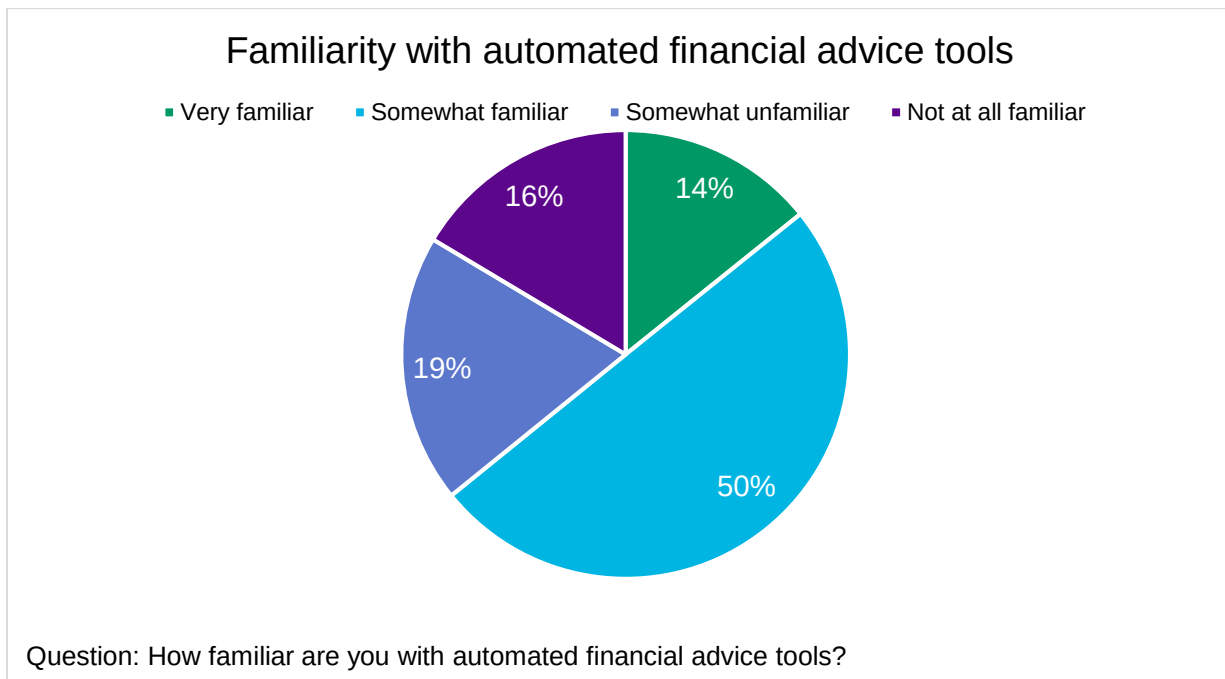
Survey Results

Familiarity with automated financial advice tools

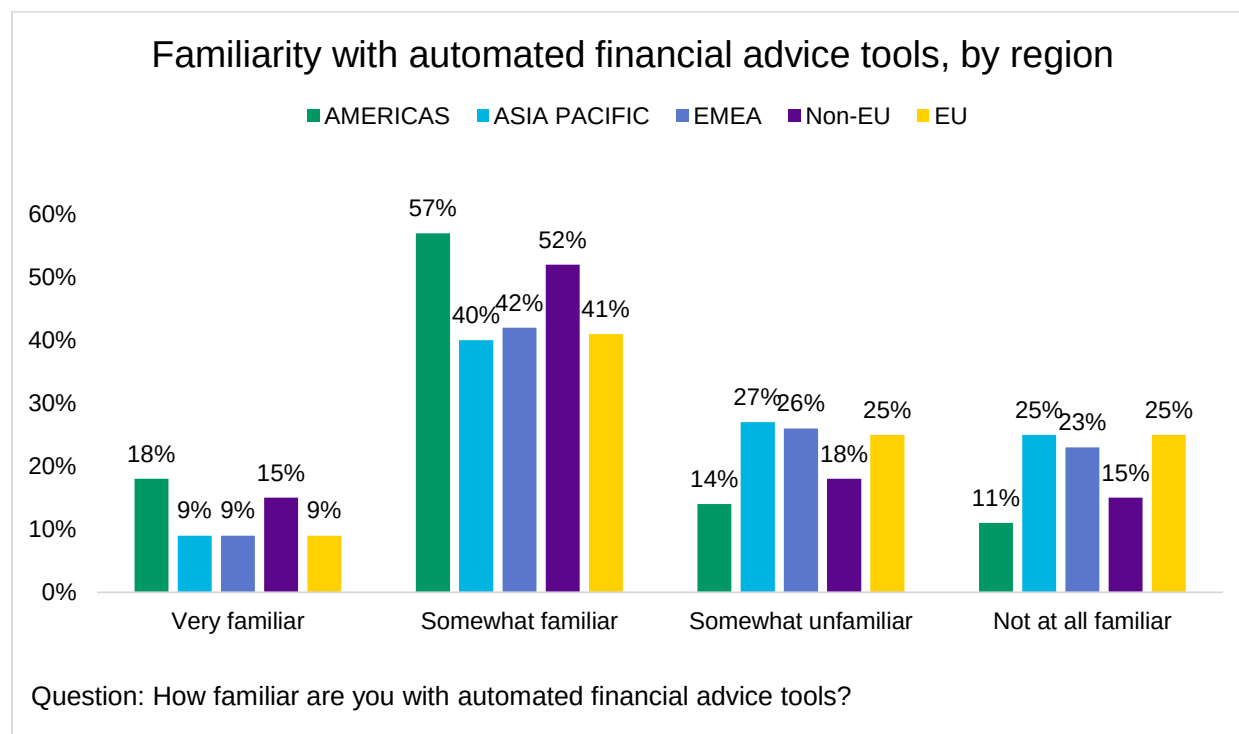
1. How familiar are you with automated financial advice tools (e.g. robo advisers)?

- **Very familiar**
- **Somewhat familiar**
- **Somewhat unfamiliar**
- **Not at all familiar**

Our survey shows that 64% of respondents note that they are familiar (very or somewhat) with automated financial advice tools, implying a fairly high level of awareness overall. Despite this, a not insignificant 16% of members note that they are not at all familiar with such tools.



The Americas region has the highest level of familiarity of all regions. Members in EMEA and APAC have similar levels of familiarity. Compared with respondents from EU, Non-EU respondents tend to show greater levels of familiarity.

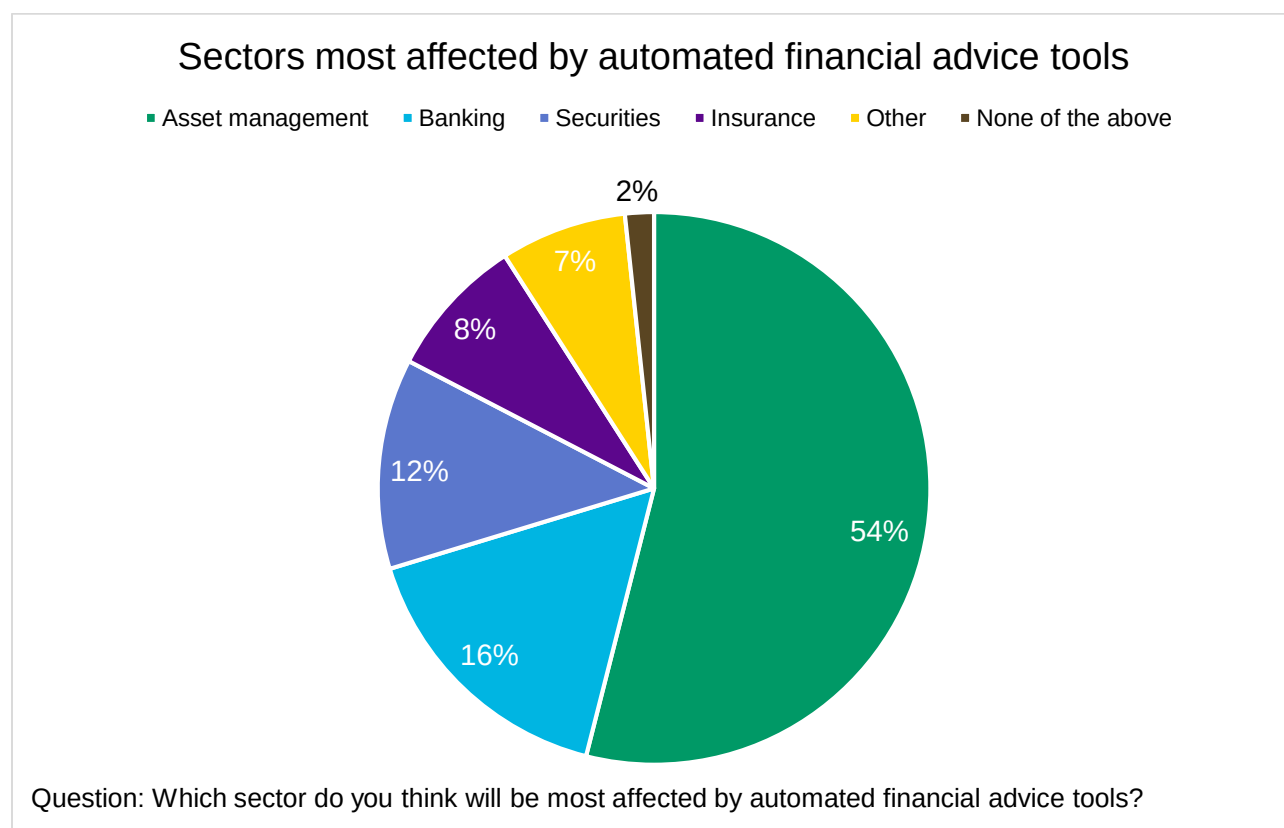


Sectors most affected by automated financial advice tools

2. Which sector do you think will be most affected by automated financial advice tools?

- Banking
- Insurance
- Securities
- Asset management
- Other, please specify: [text box]
- None of the above

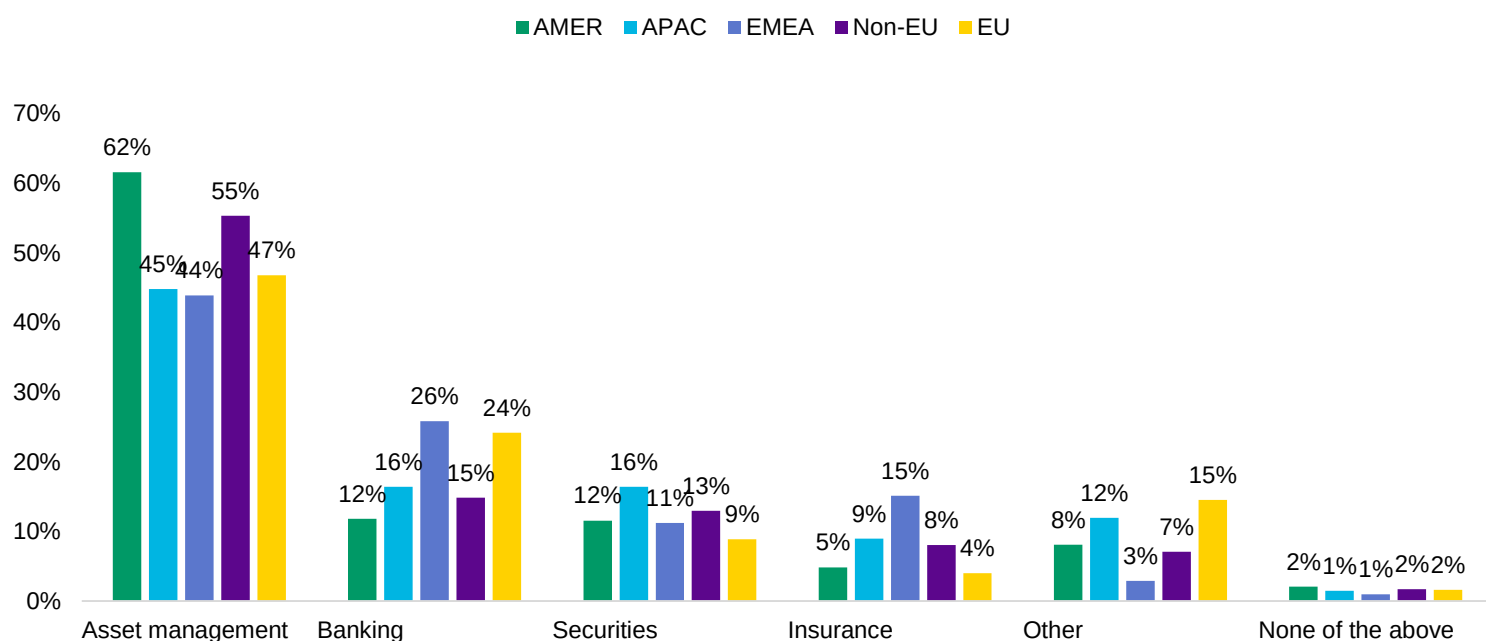
Unsurprisingly, asset management (54%) is considered to be the sector that will be most affected by automated financial advice tools, followed by banking (16%), securities (12%), and insurance (8%). Many of the open-ended responses put forward under “Other” noted financial advisors and wealth management as being the specific group that will be most affected.



Respondents from the AMER region are more likely to consider asset management to be most affected by automated financial advice tools when compared with respondents from the EMEA and APAC regions.

In EMEA there was a noticeable split between EU and non-EU members. EU members thought banking would be affected to a greater extent than non-EU members. However, overall both EU and non-EU members agreed that asset management will be most affected.

Sectors most affected by automated financial advice tools, by regions



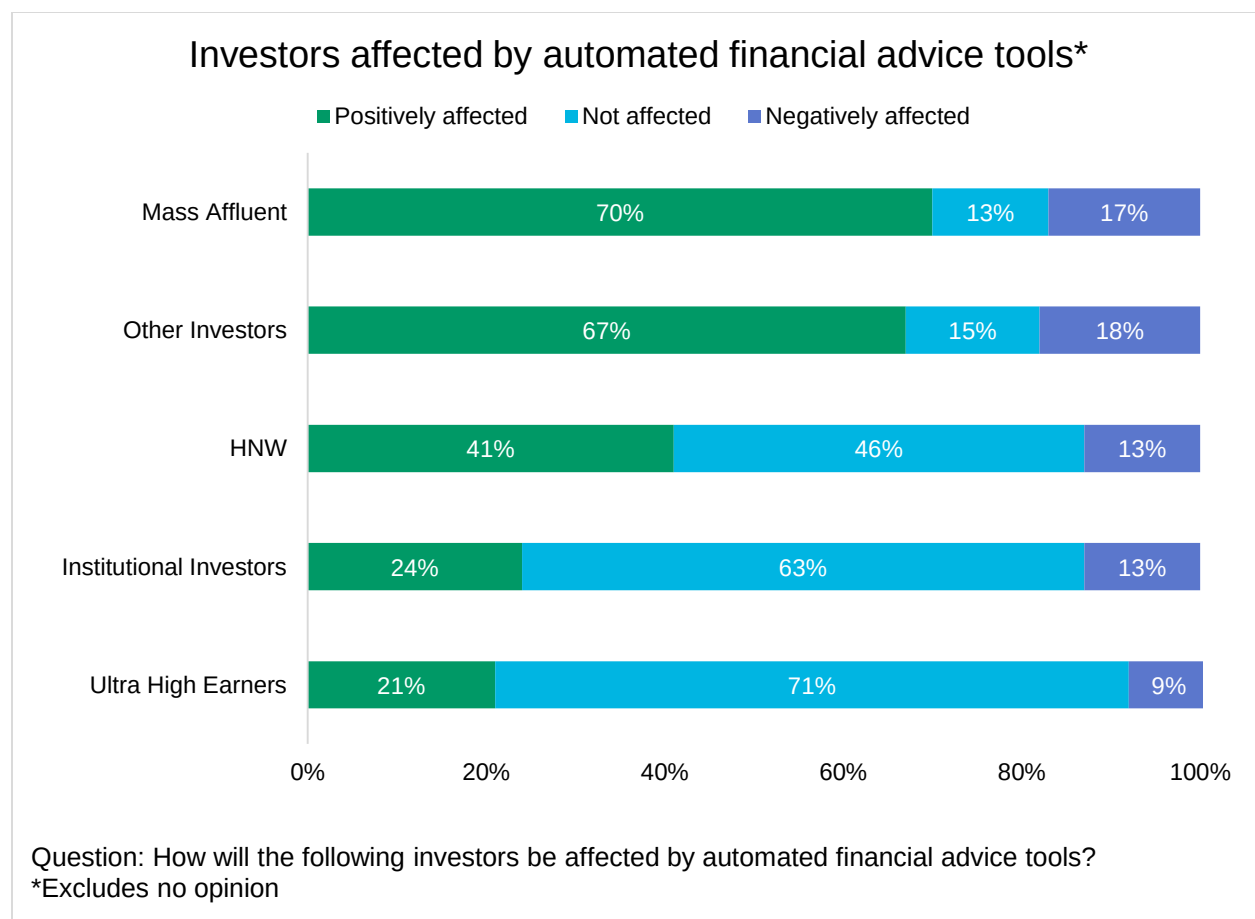
Question: Which sector do you think will be most affected by automated financial advice tools?

Investors affected by automated financial advice tools

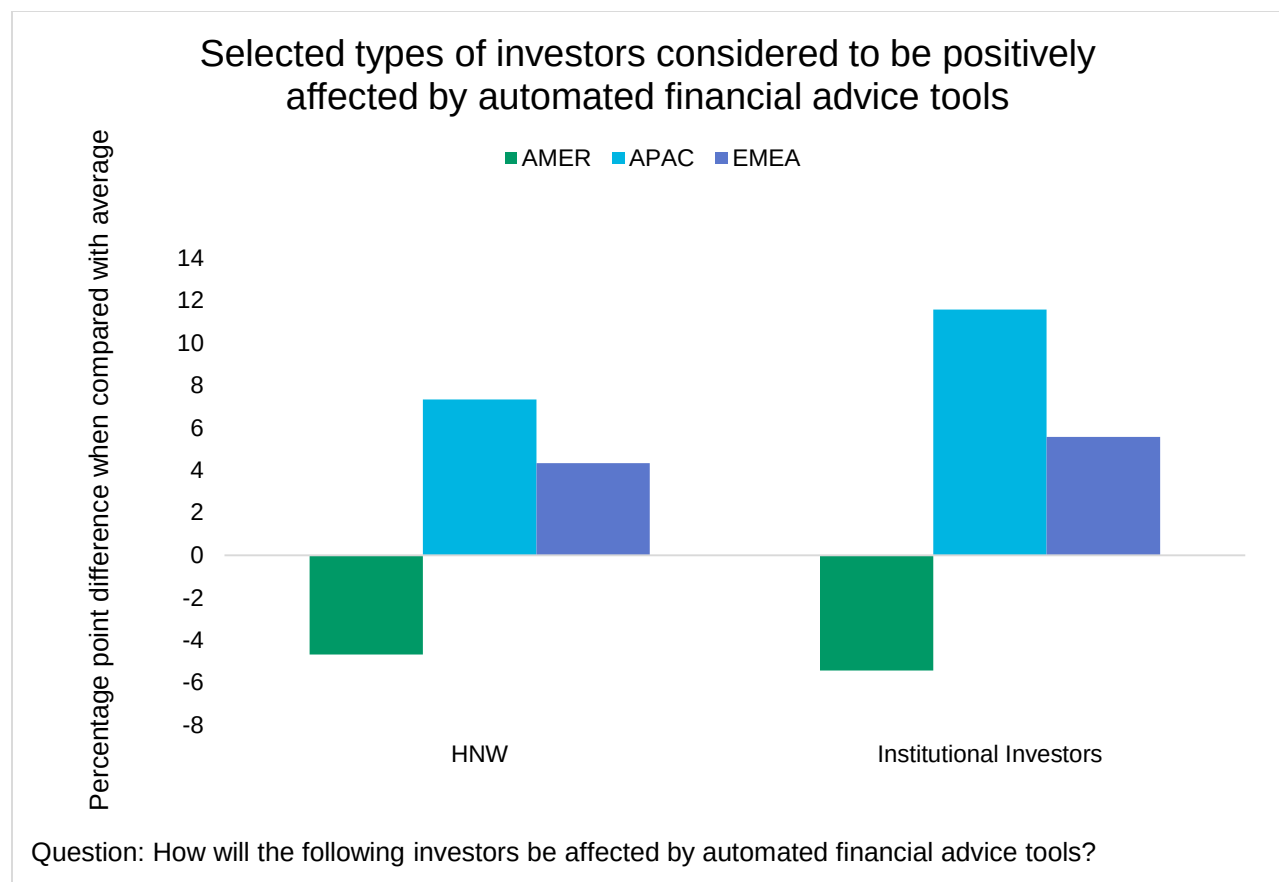
3. How will the following investors be affected by automated financial advice tools?

- Mass affluent
- High net worth
- Ultra-high net worth
- Institutional
- Other
- Positively affected
- Negatively affected
- Not affected
- No opinion

Most financial advice tools offer relatively unsophisticated advice based typically on offering a diversified portfolio. It is likely because of this stylised fact that 70% of respondents think mass affluent investors will be positively affected by automated financial advice tools, followed by other investors (67%) and high net worth individuals (41%). The higher the wealth, the more likely respondent do not think investors will be affected by automated financial advice tools, which are not yet capable of offering complex, tailored advice.



Respondents from the APAC and EMEA regions are more likely to agree that HNW and institutional investors will be positively affected by the automated financial advice tools compared with respondents in the AMER region.



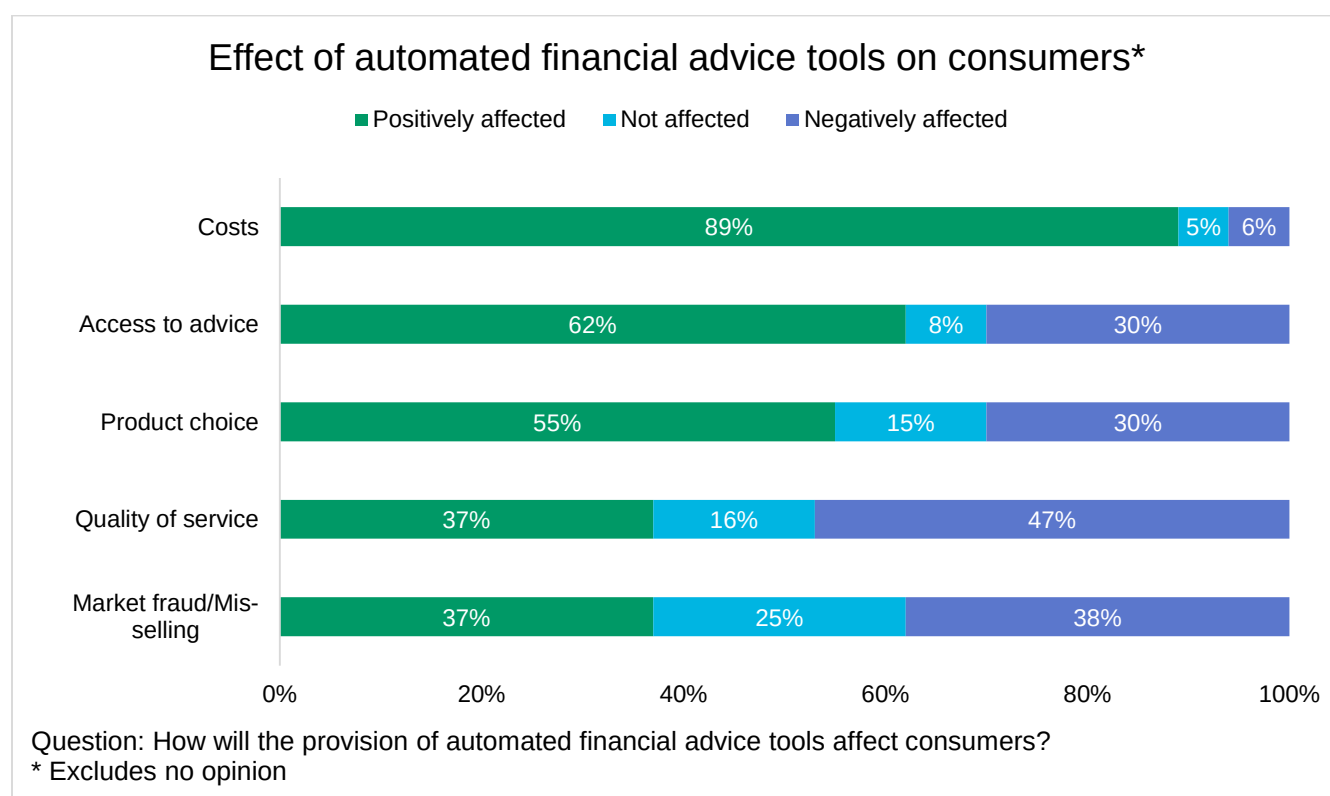
The effect of automated financial advice tools on consumers

4. How will the provision of automated financial advice tools affect consumers, if at all?

- Costs
- Access to advice
- Product choice
- Quality of service
- Incidence of market fraud / mis-selling
- Positively affected
- Negatively affected
- Not affected
- No opinion

The rise of automated financial advice tools may impact consumers through several mechanisms. Some of these impacts may be positive, others negative. Our survey suggests that cost, access to advice, and product choice are all viewed as more likely to have a positive impact on consumers.

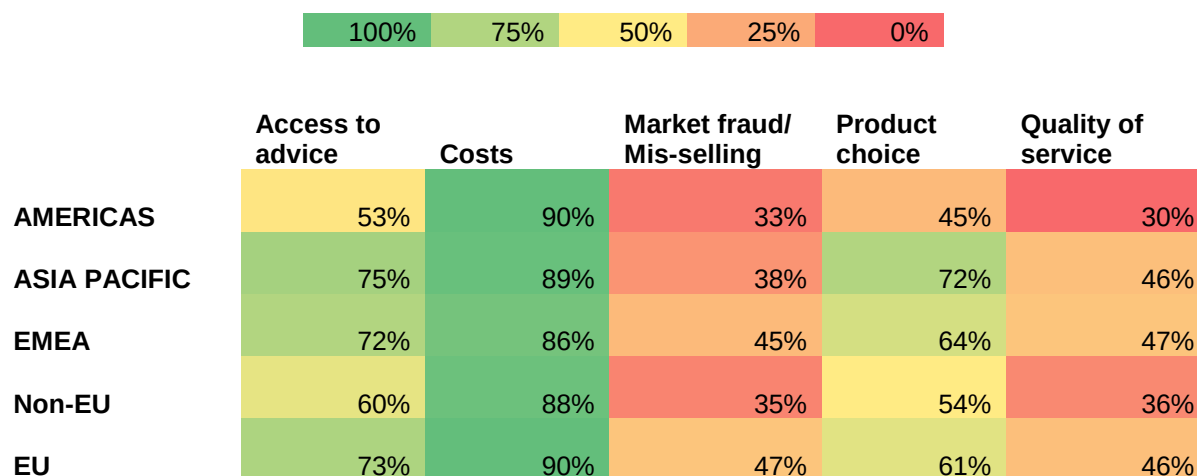
Respondents are most divided on opinions of the impact of financial advice tools on market fraud/mis-selling and quality of service, with quality of service being the most negatively impacted.



Respondents from AMER region are much less likely than those in APAC and EMEA to think automated financial advice tools will positively affect consumers in the areas of access to advice, product choice, and quality of service.

Respondents from EU countries are more likely (73% vs 60%) to think that automated financial advice tools can provide positive impact on access to advice compared with those from non-EU countries.

Positive effect of automated financial advice tools on consumers, by region



The extent to which automated financial advice tools will replace engagement with human advisors

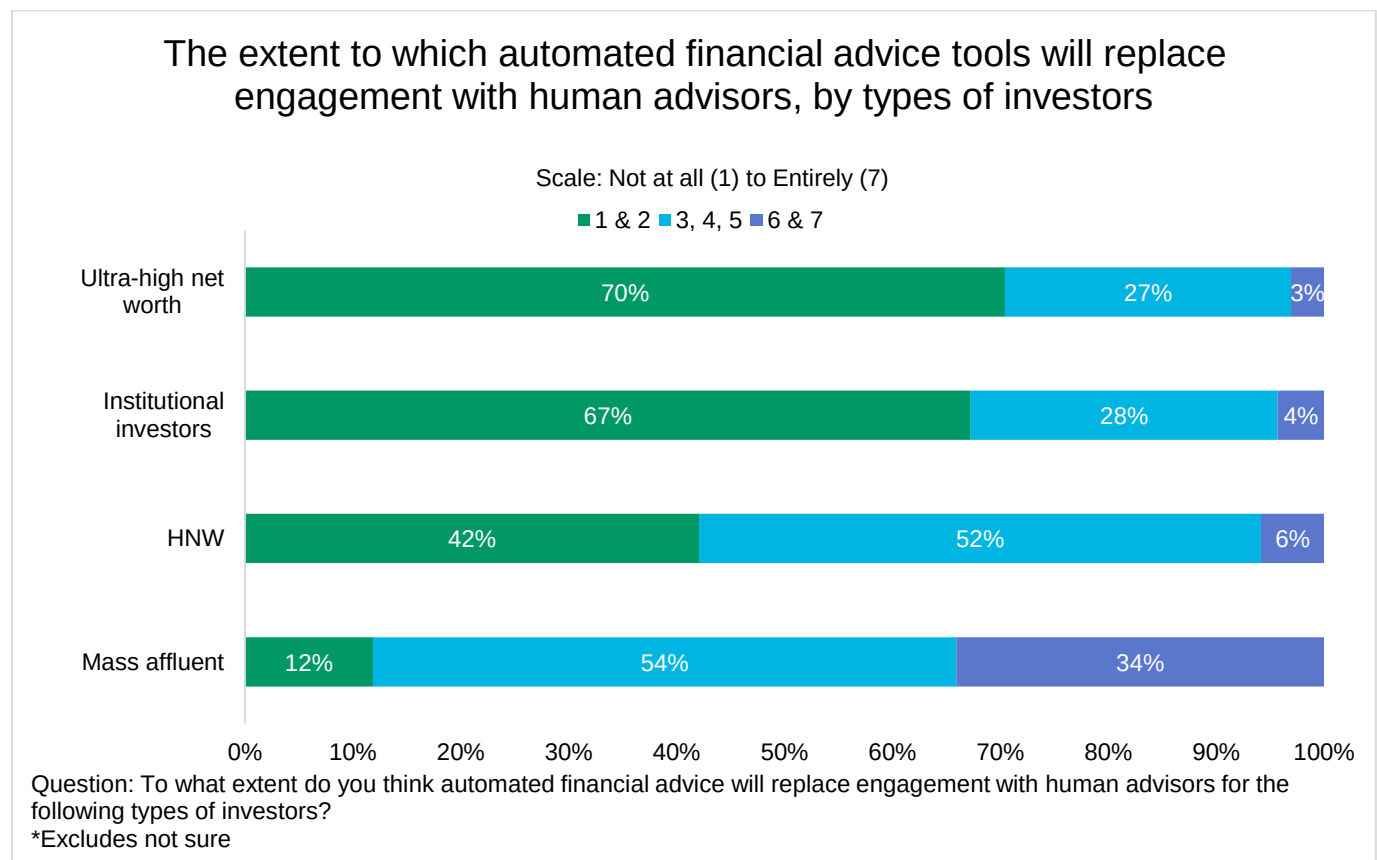
5. To what extent do you think automated financial advice will replace engagement with human advisors for the following types of investors? (1 means not at all, 7 means entirely)

Scale: 1 (Not at all) to 7 (Entirely); Not sure

- Mass affluent investors
- High net worth investors
- Ultra-high net worth investors
- Institutional investors

Given the relatively unsophisticated nature of automated financial advice tools to-date, it is probably not surprising that respondents think it is unlikely that automated financial tools will replace engagement with human advisors for institutional investors and ultra-high net worth investors. Both these groups typically require complex, tailored advice.

Respondents think these tools might replace engagement with human advisors for HNW somewhat, but think mass affluent are most likely to experience automated tools replacing engagement with human advisors. These groups are most likely to benefit from relatively more straightforward diversification strategies.



Biggest risk introduced from automated financial advice tools

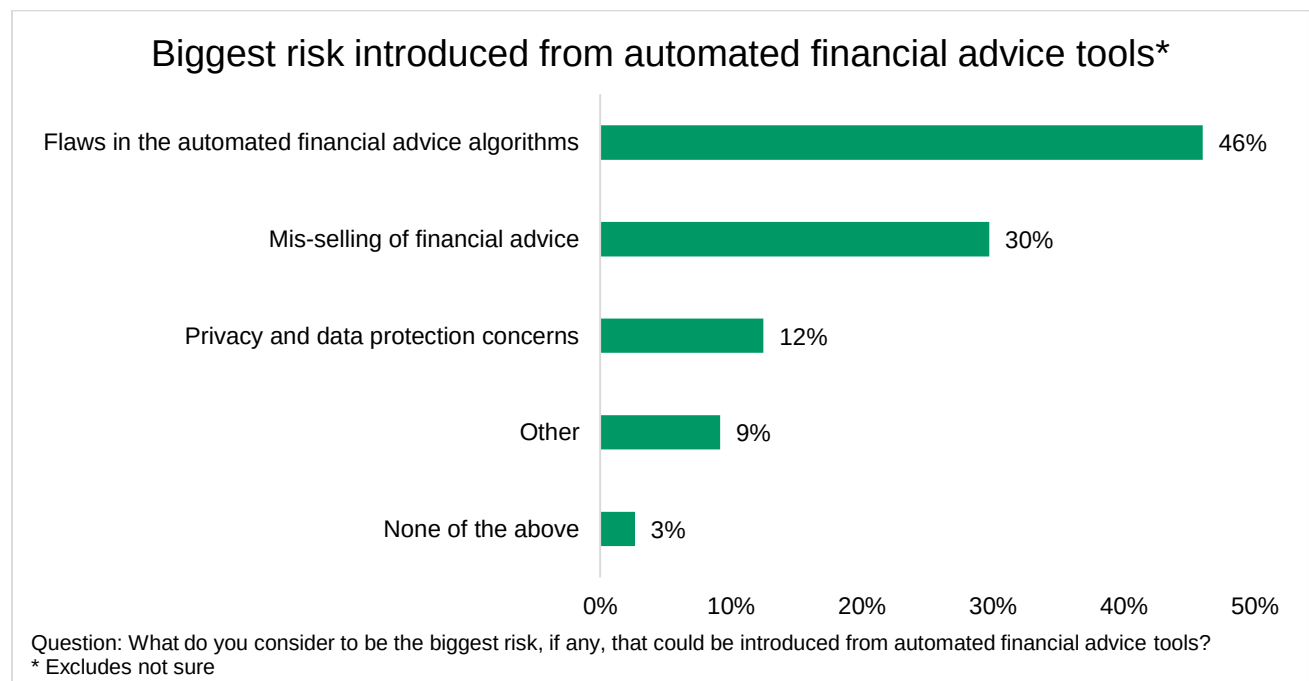
6. What do you consider to be the biggest risk, if any, that could be introduced from automated financial advice tools?

- **Mis-selling of financial advice**
- **Flaws in the automated financial advice algorithms**
- **Privacy and data protection concerns**
- **Other, please specify: [text box]**
- **None of the above**
- **Not sure**

The increase in automated financial advice may lead to new risks or the re-evaluation of existing risks. 46% of respondents note that flaws in automated financial advice algorithms could be the biggest risk introduced from automated financial advice tools, followed by mis-selling (30%) and privacy and data protection concerns (12%).

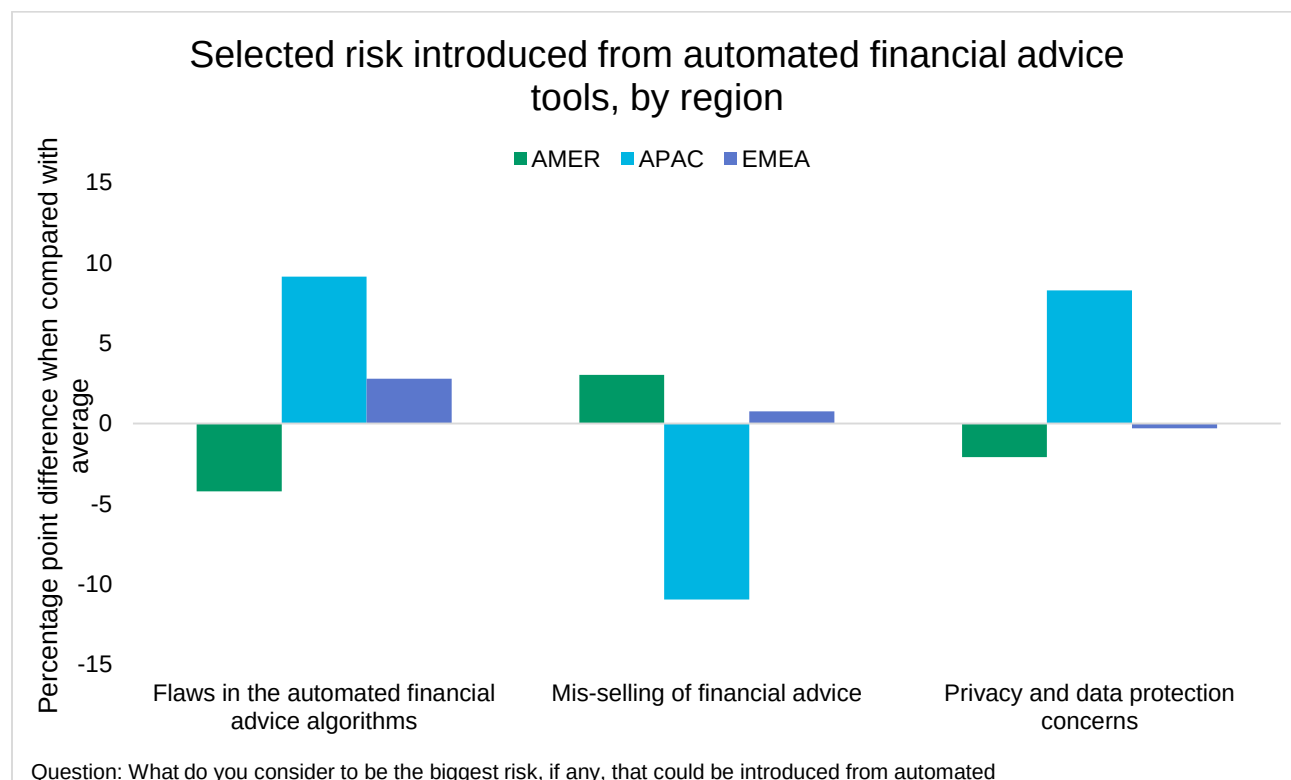
The verbatim responses centred on a few additional concerns:

- Automated financial advice tools are not likely to be able to account for behavioural biases in clients or to account for personal circumstances in a satisfactory fashion;
- The risk of herding as more and more investors are directed towards passive strategies.



Respondents from the APAC region are less likely to consider mis-selling as the biggest risk from automated financial advice tools when compared with members from AMER and EMEA regions, possibly due to the increased awareness of mis-selling in the AMER and EMEA regions due to recent enforcement actions.

Meanwhile, members from APAC are more likely to agree that flaws in the automated financial advice algorithms or privacy and data protection concerns are the biggest risk.



Greatest technological impact on financial services industry

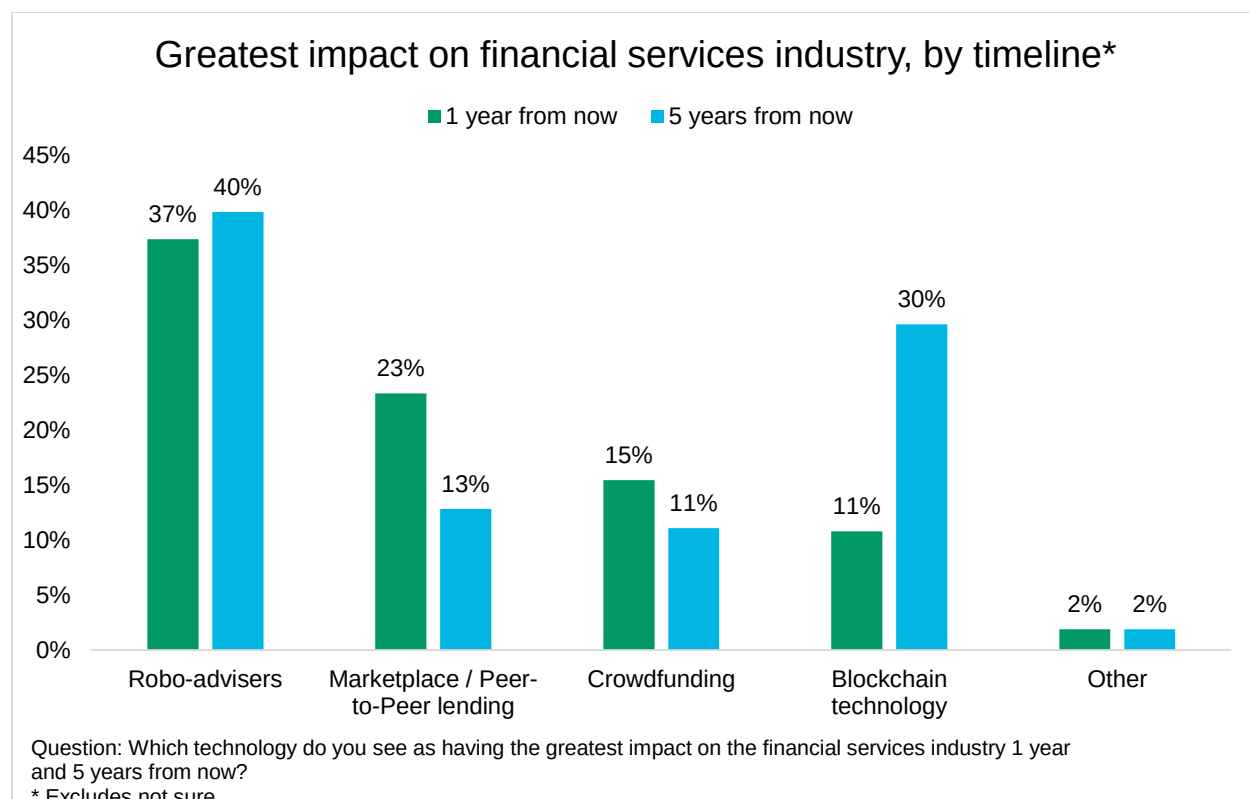
7. Which technology do you see as having the greatest impact on the financial services industry 1 year from now?

- Robo-advisers
- Blockchain technology
- Crowdfunding
- Marketplace / Peer-to-Peer lending
- Other, please specify: [text box]
- Not sure

8. Which technology do you see as having the greatest impact on the financial services industry 5 years from now?

- Robo-advisers
- Blockchain technology
- Crowdfunding
- Marketplace / Peer-to-Peer lending
- Other, please specify: [text box]
- Not sure

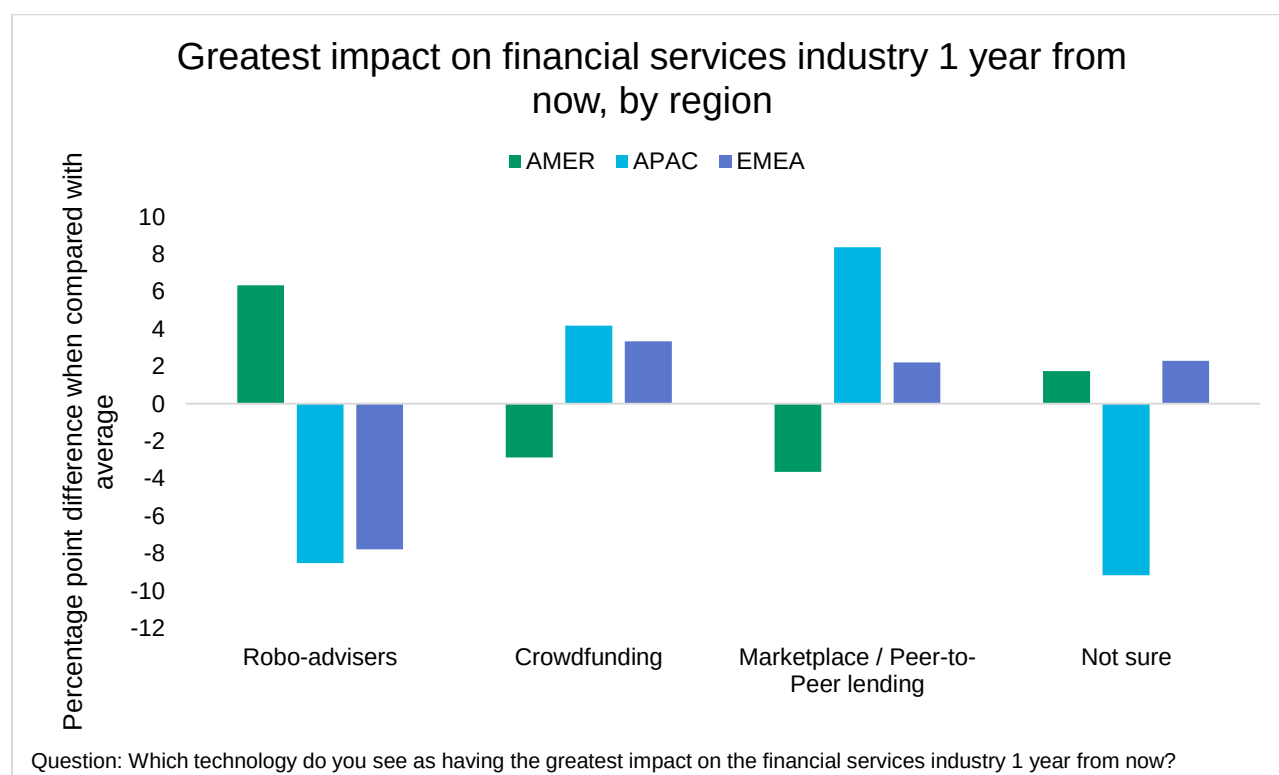
While robo-advisers are already having a market impact in investment management, blockchain technologies are increasingly entering the public consciousness. However, robo-advisers are still considered to be the technology that will have the greatest impact on financial services industry both 1 year and 5 years from now. It appears that the lack of proven use-cases for blockchain technology in the investment management industry means robo-advisers continue to dominate industry concerns.



However, there is 17 percentage point difference of the blockchain technology having the greatest impact on the financial services industry between 5 years and 1 year from now, showing that blockchain is nevertheless considered a potential future risk/ opportunity in the medium- to long-term. Peer-to-peer lending, on the other hand, is more likely to have short term impact on the financial service industry.

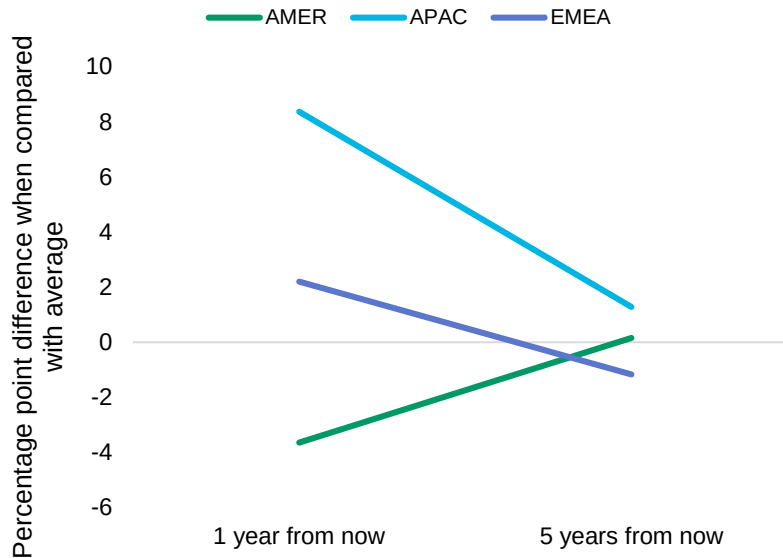
Strong regional differences can be observed when it comes to short-term impact on financial services industry. A higher proportion of respondents from AMER (39%) than EMEA and APAC (25%) are likely to consider robo-advisers as having the greatest impact on the industry.

Meanwhile, a higher proportion of respondents from APAC (29%) than AMER and EMEA (17% and 23%, respectively) think marketplace/peer-to-peer lending will have the greatest impact on the financial services industry 1 year from now.

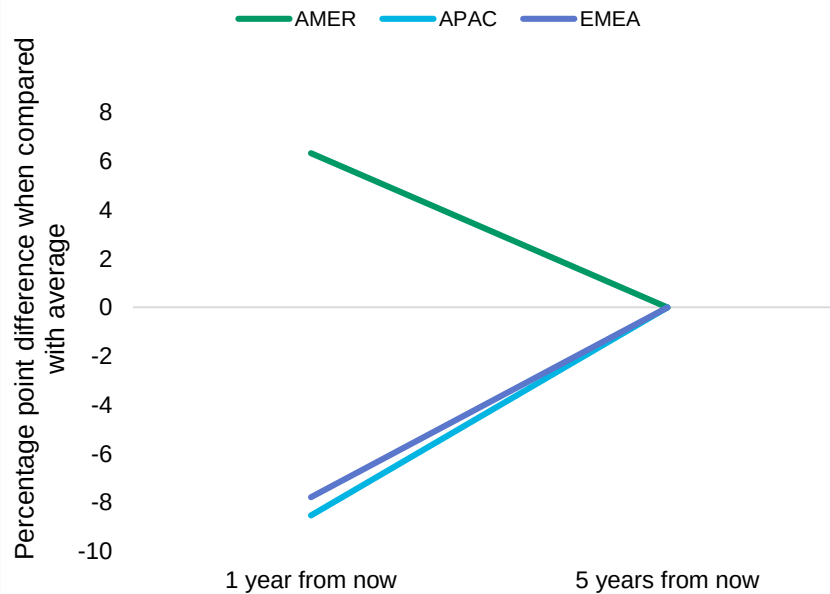


The aforementioned regional differences can only be observed with regard to the impact on financial services industry 1 year from now. When asked the greatest impact on the financial services industry 5 years from now, the regional differences diminish significantly.

Marketplace/peer-to-peer lending as the technology having the greatest impact, by timeline



Robo-advisors as the technology having the greatest impact, by timeline



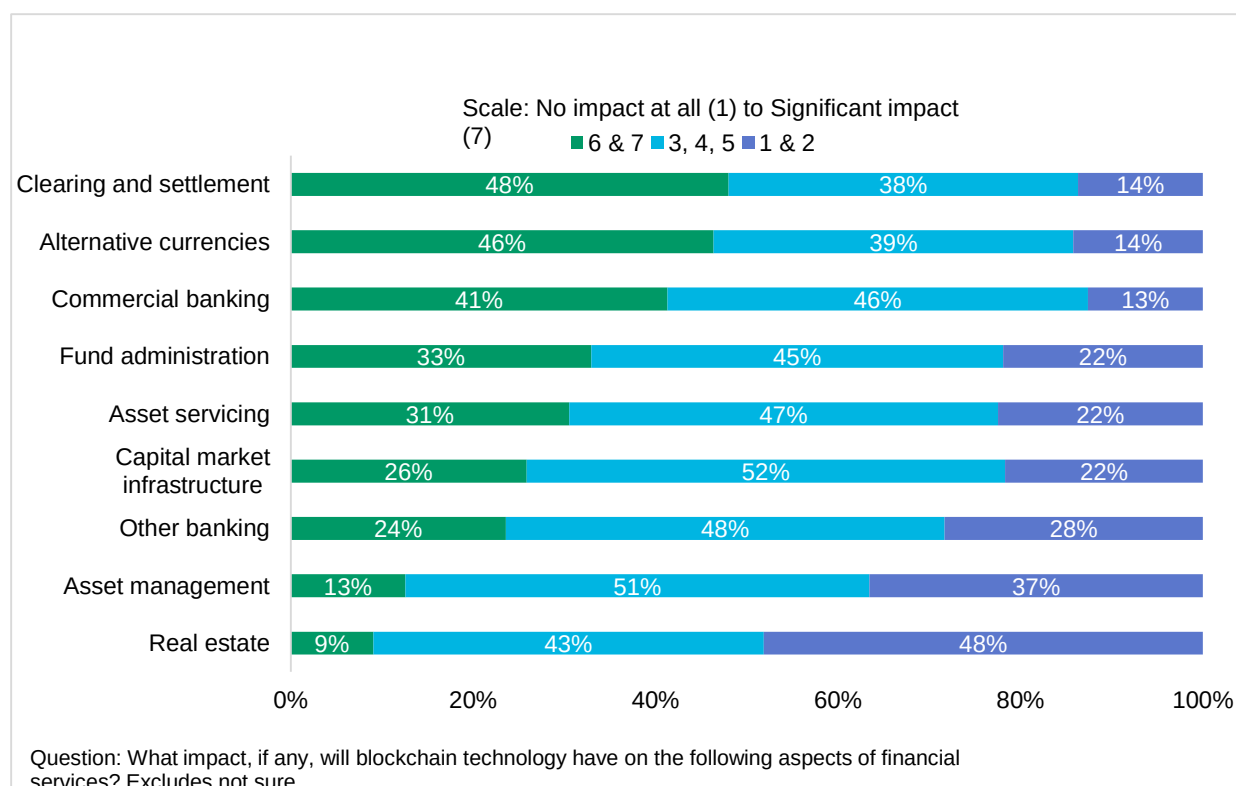
Impact of blockchain technology

9. What impact, if any, will blockchain technology have on the following aspects of financial services? (1 = No impact at all, 7 = Significant impact)

- Commercial banking (e.g. payments systems)
- Asset management
- Asset servicing (e.g. custody, securities financing)
- Fund administration (e.g. record keeping)
- Clearing and settlement
- Real estate
- Alternative currencies
- Capital markets infrastructure
- Other banking, please specify: [text box]

- 1 – No impact at all
- 2
- 3
- 4
- 5
- 6
- 7 – Significant impact
- Not sure

Clearing and settlement, alternative currencies, and commercial banking are the top three areas that are thought to be under greatest impact of blockchain technology. It is also notable that approximately one in three respondents were not able to comment on this question, possibly due to the relatively low level of awareness of blockchain technology.



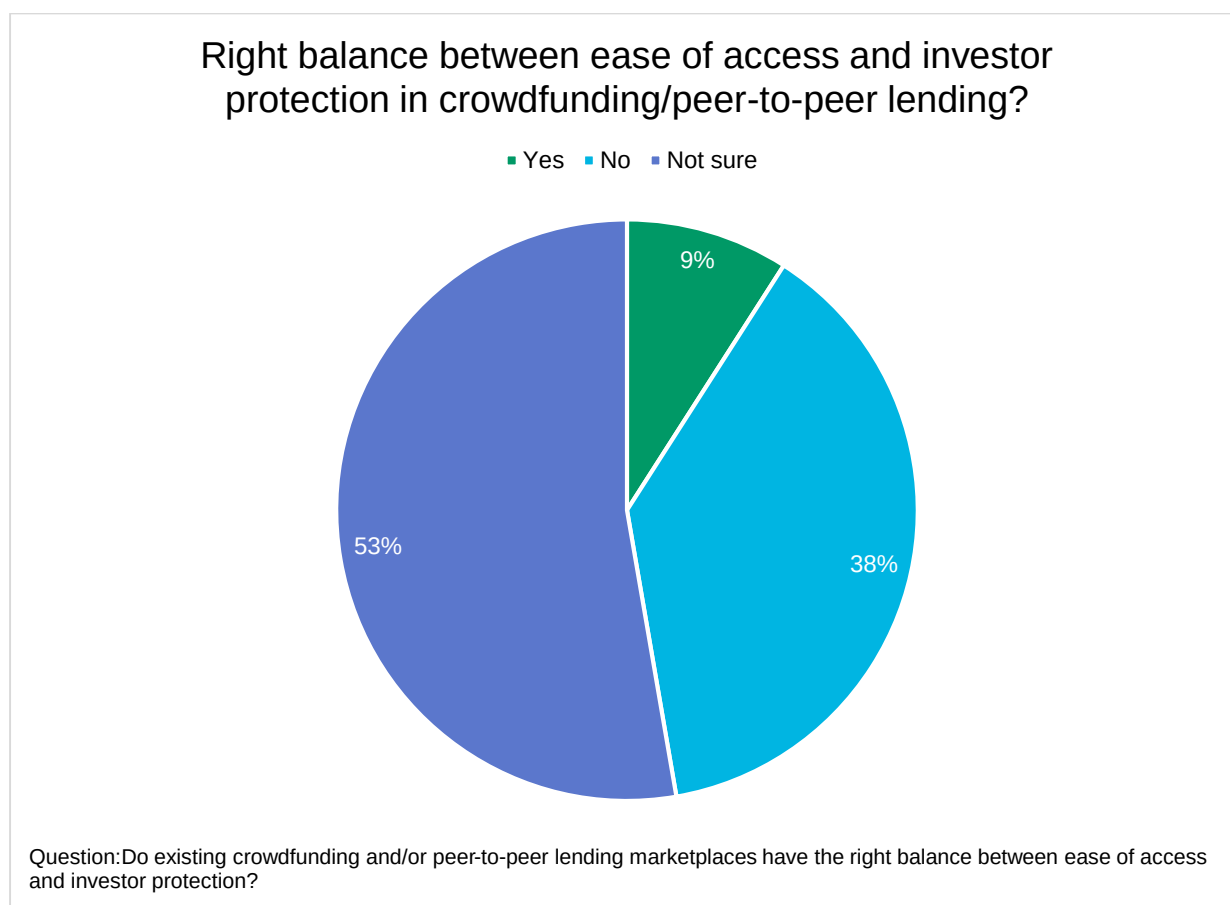
Crowdfunding/peer-to-peer lending marketplaces

10. Do existing crowdfunding and/or peer-to-peer lending marketplaces have the right balance between ease of access and investor protection?

- Yes
- No
- Not sure

Please explain your response: [text box]

38% of respondents note that the existing crowdfunding and/or peer-to-peer lending marketplaces do not have the right balance between ease of access and investor protection. Only 9% of respondent think otherwise. The majority of respondents (53%) are not sure if such balance exists.



The open-ended responses were quite neatly split between those who selected “No” and those who selected “Yes”:

- The “Yes” camp mostly referred to crowdfunding necessitating a degree of investor self-responsibility, which they viewed in a positive light. There were not many comments in total.
- The “No” camp featured significantly more comments and noted uneven and insufficient information requirements for investors as well as the lack of sufficient investor protections.

It seems while more respondents voted “Yes”, those who voted “No” had more specific criticisms of the status quo.

11. Please share any additional comments or opinions you have regarding Financial Technology (FinTech):
[open comment box]

Comments in response to this question coalesced around two themes:

- Proponents of fintech as an unalloyed positive that will disrupt the unsatisfactory status quo;
- Critics worrying about the lack of investor protections and regulatory coverage of fintech;