Understanding the Fintech Hype

By Rhodri Preece, CFA

“Fintech” is one of the most talked about buzzwords in finance these days. It headlines many industry conferences and events worldwide and has even found its way onto the international regulatory agenda. The hype around fintech alludes to its potential to lower costs, increase process efficiencies, and facilitate access to financial products and markets. Yet knowledge of fintech is mixed, and the scope of its application to investment management remains unclear. Will it have a disruptive impact on the industry, and which investors will benefit?

In simple terms, fintech comprises three main developments: (1) the application of distributed ledger (blockchain) technology in finance; (2) automation in the provision of financial advice (robo-advisers); and (3) loan-based or capital-raising platforms that directly connect issuers and investors (disintermediating the traditional role of banks), including crowdfunding platforms and peer-to-peer (marketplace) lending.

The applicability of these three elements to investment management is most developed in the case of robo-advisers. Automated financial advice tools have gained a foothold in the market in recent years, offering the potential for relatively low-cost, standardized investment solutions. Robo-advisers operate similarly to traditional human advisers, providing portfolio solutions for individuals’ financial needs based on their risk tolerances, investment horizons, and other preferences. The difference is that robo-advisers generate recommendations algorithmically using these inputs.

To understand the effects of automation on financial advice, as well as the application of other fintech issues, CFA Institute conducted a member survey in February–March 2016. We received 775 responses from our survey pool (a very high response rate of 20%) and published the results in April. The survey found that more than 70% of respondents think mass affluent investors will be positively affected by automated financial advice tools through reduced costs, improved access to advice, and improved product choices. This finding supports the anecdotal observation that robo-advisers target the lower-end passive investment market.

At the same time, respondents found it unlikely that automated financial advice tools will gain traction for ultra-high-net-worth and institutional investors, with 71% and 63% of respondents, respectively, indicating these groups would not be affected by automated advice. The implication is that financial advice to these market segments is by nature highly tailored and thus less amenable to standardized portfolio solutions provided by robo-advisers. These investors, who usually have large portfolios and potentially diverse and complex investment needs, are likely to continue to favor personalized, human advice.

Similarly, when asked about the extent to which automated financial advice tools will replace engagement with human advisers, 67% of respondents thought that institutional investors would not be affected at all, and 70% thought the same for ultra-high-net-worth investors. In contrast, 88% of respondents thought mass affluent investors would somewhat or entirely replace human advisers with automated services.

Overall, these findings are consistent with the conclusions of the Financial Advice Market Review (FAMR) published by the UK Financial Conduct Authority and Her Majesty’s Treasury in March 2016. The FAMR noted that steps needed to be taken to make the provision of advice to mass-market investors more cost effective and included a proposal to help firms bring mass-market automated advice models to market more quickly. These conclusions suggest that robo-advisers could fill an “advice gap” that has opened up in consumer segments seeking to avoid high upfront fees for financial advice. This situation is particularly relevant in the United Kingdom following the ban on commission-based advice in favor of fee-based services under the Retail Distribution
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According to the SFC, Poon knowingly and intentionally violated the written policies and procedures of CICCHK and Yuanta, which required that employees disclose their outside securities accounts and holdings both before joining the firm and annually. The firms also required that all personal trading by Poon be pre-approved in writing by both his supervisors and the firms’ compliance departments. The SFC found that Poon deliberately and dishonestly concealed from his employers his beneficial interests and trading activities in his friends’ accounts by preparing and submitting false and misleading reports to his employers and their compliance departments. The SFC found that Poon deliberately and dishonestly concealed from his employers his beneficial interests and trading activities in his friends’ accounts by preparing and submitting false and misleading reports to his employers and their compliance departments.

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