

11 March 2015

Mr. Stephen Po
Chairman, IOSCO Committee 3 on
Regulation of Market Intermediaries
VIA EMAIL

707 17th Street, Suite 2925
Denver, CO 80202 USA

p +1 720 407 1911

f +1 720 407 1921

e info@fpsb.org

w www.fpsb.org

Dear Stephen and Members of IOSCO C3:

Financial Planning Standards Board Ltd. (FPSB)¹ appreciates your invitation to provide feedback from the global financial planning community on the issue of automated-advice tools and potential risks presented by these tools to retail investors.

As the global standards-setting body for financial planning, FPSB's vision is to establish financial planning as a global profession so that members of the public can identify and access the services of competent and ethical financial planning professionals. FPSB represents a global network of 26 nonprofit member organizations that have certified more than 157,000 CERTIFIED FINANCIAL PLANNER professionals, and additionally several hundred thousand financial advisers, around the world.

Like IOSCO C3, FPSB welcomes the opportunity to better understand the impact of automated-advice tools on the clients of financial planners. Because CFP certification requires practitioners to place the interests of their clients first, FPSB wants to better comprehend the nature of automated, or "robo-advice," tools and the impact these tools have on the type and quality of financial advice received by the public.

FPSB defines financial planning as the process of developing strategies to assist clients in managing their financial affairs to meet life goals. Financial planning can involve reviewing all relevant aspects of a client's situation across a large breadth of financial planning activities (including inter-relationships among often conflicting objectives). While products play a key role in the implementation of a financial plan, financial planners recommend products only after a financial plan is in place, and may refer their clients to other financial practitioners to purchase products. A financial planner's recommended strategies may not always include the need to purchase or sell financial products. Furthermore, while being a key part of the financial planning process, investment planning is only one of several financial components a financial planner reviews with a client – other areas addressed by financial planners include: financial management, risk management, tax planning, retirement planning and estate planning. Consequently, when FPSB reviewed the implications of automated-advice tools, we did so through the rubric of financial planning, and from the comprehensive financial needs of a client, rather than focusing only on the investment needs of the client.

¹ Financial Planning Standards Board is the owner of the international CERTIFIED FINANCIAL PLANNER certification outside the United States, and develops and operates certification, education and related programs for financial planning organizations to benefit the public. FPSB has a nonprofit member organization in the following 26 territories: Australia, Austria, Brazil, Canada, Chinese Taipei, Colombia, France, Germany, Hong Kong, India, Indonesia, Ireland, Israel, Japan, Malaysia, New Zealand, the Netherlands, the People's Republic of China, the Republic of Korea, Singapore, South Africa, Switzerland, Thailand, Turkey, the U.K. and the U.S. As of 31 December 2014, there were 157,586 CFP professionals worldwide. For more information, visit fpsb.org.

In February 2015, FPSB developed two surveys based on IOSCO C3's *Report on the IOSCO Social Media and Automation of Advice Tools Surveys*.

The first survey, sent to FPSB's Global CFP Professional Advisory Panel, focused on the current and anticipated impacts of automated-advice tools on financial planners' practices, the extent to which they thought regulators in their territories should act on the issues raised in the C3 Report, and whether there were additional issues or guidelines regulators should consider. We received responses from 30 practitioners in eight territories including: Australia, Brazil, Chinese Taipei, India, Indonesia, New Zealand, Switzerland and the United States.

Our second survey, targeted to the chief executives and lead volunteers of our 26 member organizations around the world, focused on their experience with the use of automated-advice tools among their memberships and financial planner/financial adviser communities, and whether they had formalized guidance on this issue. We received 62 responses from the leadership of FPSB's financial planning organizations in the following 20 territories: Australia, Austria, Brazil, Canada, China, Colombia, Germany, Hong Kong, India, Indonesia, Rep. of Korea, Japan, Malaysia, The Netherlands, New Zealand, Singapore, South Africa, Switzerland, Turkey and the United Kingdom.

Although these two surveys were brief and distributed to a discrete global community of financial planning practitioners and organization leaders in order to be responsive to IOSCO C3's mid-March deadline, we believe the 92 responses we received from 22 territories accurately reflect the global financial planning community's perspectives of this issue.

We hope our findings from both the CFP professional and FPSB member organization surveys are useful to IOSCO C3 as it continues to develop its position on the issue of automated-advice tools for retail investors. As always, FPSB welcomes the opportunity to work cooperatively with IOSCO in the development of any guidance or regulation that impacts the delivery of client-centric, professional financial advice.

If you have any questions on the results of our survey, or would like to discuss the findings further, please contact me at +1-720-407-1902 or nmaye@fpsb.org.

Best regards,



Noel Maye, CEO
Financial Planning Standards Board Ltd.

FPSB Survey Results – CERTIFIED FINANCIAL PLANNER Professionals

FPSB's survey to CFP professionals contained 25 questions, which were organized in three sections. First, we asked about the use of automated-advice tools within the practitioner's territory and within his/her practice. Next, we sought opinions on how/whether regulators should focus on the specific issues raised in the IOSCO C3 *Report on the IOSCO Social Media and Automation of Advice Tools Surveys*. Finally, we asked what further guidance, if any, practitioners would like to see from regulators and/or from FPSB. Following is a report of the responses to each question (percentages may not total to 100 due to rounding):

Feedback Summary – CFP Professional Survey

- Generally, use of automated-advice tools is not widespread globally in financial planning practices but likely to grow within the next 12-18 months. The vast majority of CFP professionals do not currently use automated-advice tools in their practices, but many are considering it.
- CFP professionals would welcome guidance from regulators, FPSB and/or their professional bodies on how best to incorporate automated-advice tools into their practice. (Types of guidance sought are detailed starting on page 12.)
- CFP professionals would use automated-advice tools: (1) to gather client information to support personalized advice delivery; (2) for transactional matters, freeing up the planner to focus on the client relationship and on the delivery of actual advice; (3) to reduce business costs, improve back-office efficiencies, pass savings on to clients, or serve a less-wealthy client base; (4) as a complement to personalized advice; (5) to check the consistency/accuracy of their recommendations; and (6) to incorporate external specialized advice providers into the practice's offering to clients.
- Automated-advice tools could be useful for clients with less complicated financial needs, but such tools (on a stand-alone basis) would not be appropriate for high-net-worth clients with complex financial needs and situations.
- Automated-advice tools should not be viewed as a replacement for human interaction with a client.
- Financial planners expect to lose clients to automated-advice providers, but not necessarily revenue (with a comment that those seeking automated-only advice are not likely to be financial planning clients).

Considerations for C3/Regulators:

- If end users assume they are getting "advice," require firms to classify the output of automated advice tools as advice and regulate automated advice in the same manner as human advice.
- Require firms to ensure the data in automated-advice tools is based on up-to-date client information and risk profiling, and mandate a client check-in/review at least annually on the appropriateness of the advice based on (potentially changing) underlying objectives.
- Require clients of automated-advice providers to acknowledge the correctness of the data supplied, creating some level of responsibility on the part of the client for the automated advice provided.

- Require automated-advice providers to provide clearly visible, easily-understood warnings to clients that in the absence of good/sufficient information, the output may not be appropriate. Additionally, determine how best to prepare users for the output recommendation – since users are going to approach robo-advice with an outcome in mind, the responses will be channeled to delivering an outcome that the client thinks he or she needs.
- Implement safeguards to protect clients from mis-selling by requiring a fiduciary level of care for advice provided by automated-advice tools.
- Develop guidelines on the processes to be followed by the developer of automated-advice tools, and assume firms will manage conflicts of interest and disclosure requirements in the delivery of automated advice as a compliance and risk management issue, no different than traditional advice delivery.
- Consider if complex products should be provided via automation to retail customers.
- Consider automated advice as a tool for financial advisers, provided alongside a process focused on providing advice aligned to the client's needs and objectives.
- Require automated-advice providers to be registered/approved through an industry body, or based on regulatory guidelines, with clear guidelines on what products and services can be provided to consumers using this method, a competency profile of the issuers of automated advice, and a statement disclosing their client net worth requirements.
- Require issuers of automated advice to provide fee-based support to those consumers who experience financial losses after executing advice, provided such consumers create suitable logs with issuers and regulators prior to availing of the advice.
- Set bright lines on when the use of an automated tool constitutes advice, as opposed to providing an execution-only platform.
- Provide guidance on the specific policies and procedures firms should have in place when using automated tools, such as who should be permitted to use the tools, what type of education and training investment professionals should have before using the tools, and what types of supervision firms should use to oversee staff using the tools.

SECTION I: Use of Automated Advice Tools Within Territory/Practice

In your opinion, how widespread is the use of automated-advice tools in your territory?

Of the 30 practicing CFP professionals who responded, 96 percent agreed that the use of automated-advice tools is not widespread in their territories. However, 41 percent said they know of some practitioners in their territory who are using automated-advice tools now. Only one practitioner said the use of automated-advice tools is already widespread in his/her territory.

Do you agree that the trend toward incorporating automated advice is growing in your territory?

A third of the respondents believed automated advice is a growing trend in their territory. Two thirds of the respondents felt that the trend toward incorporating automated advice is not growing in their territories, but 85 percent of those respondents anticipated automated advice would grow in the territory within the next 12-18 months.

Is 100-percent automated advice resulting in a financial recommendation (no human intervention) available in your territory today?

A large majority of respondents (83 percent) said automated advice without human intervention was not available in their territories, but 40 percent of those respondents anticipated it could become available in the next 12-18 months. Sixteen percent reported that automated advice resulting in a financial recommendation was already available in their territories.

Is hybridized advice (involving some use of automated-advice tools by the client as well as human contact with a financial adviser) available in your territory today?

More than half of the respondents (56 percent) said that hybridized advice was available in their territories. Of the 43 percent who said it was unavailable, 69 percent expect hybridized advice to become available within the next 12-18 months.

Do you use automated-advice tools in your own practice?

Twenty percent of respondents said they use automated-advice tools in their practices. While 80 percent do not, a quarter of those who don't are considering using automated advice tools in the future.

How are you incorporating, or how would you incorporate automated-advice tools into your current practice?

This question invited open-ended responses from the respondents. More than 16 percent said they had no plans to use automated-advice tools. Answers from the remaining 83 percent fell into several general themes for how automated-advice tools would likely be used by financial planners/financial advisers:

1. **Gather client information to support personalized advice delivery.**
Several practitioners said they either use, or expected to use, automated-advice tools to collect the client's financial information, conduct a needs analysis or assess a client's risk tolerance as part of the Collection and Analysis phases of engaging a client in the professional advice process.
2. **Use automated tools for transactional matters.**
Several practitioners said they do, or could, conduct base-level transactions or assist clients in making minor changes to their asset allocations using automated-advice tools, freeing up the planner or financial adviser to focus on the client relationship and on the delivery of actual advice. One respondent mentioned using an automated-advice tool to help clients choose insurance products based on their needs and risk profile.
3. **Reduce business costs, passing savings on to clients or serving a less-wealthy client base.**
Several practitioners mentioned using automated-advice tools to reduce costs for clients or improve back-office efficiencies, helping them to service clients with fewer assets and less complex financial needs or situations.
4. **Use as a complement to personalized advice, not as a "stand-alone."**
Multiple practitioners mentioned they would, or could, use automated-advice tools, but that they would not consider using the tools without some human interaction with the client.
5. **Check the consistency/accuracy of recommendations.**
Financial planners and financial advisers already rely on software and technology systems to perform many aspects of the professional advice process. Some practitioners said they did, or could, use automated-advice tools to check the accuracy and consistency of their recommendations to clients.
6. **Incorporate external specialized advice providers into the practice's offering to clients.**
One respondent reported that his/her firm was already using automated-advice tools for debt/mortgage advice through the American Financial Group (AFG) system.

One practitioner said he/she would not consider automated-advice tools until there were detailed guidelines and regulations on the processes involved.

Generally, respondents commented that automated-advice tools could be useful for clients with less complicated financial needs or situations, but that such tools (on a stand-alone basis) would be increasingly less appropriate for high-net-worth clients with complex financial needs and situations.

In addition, most respondents cautioned against viewing automated tools as a replacement for human interaction with a client.

Do you expect to lose current advice clients in the next three to five years to 100-percent automated-advice tools? If yes, what percentage of your clients do you expect to lose?

Fewer than half (46 percent) of respondents did not expect to lose current advice clients to automated-advice tools, and another 30 percent said they were not sure. Of the 23 percent who answered in the affirmative, 42 percent of those expected to lose 0 – 5 percent of their clients; 28 percent expected to lose 6 – 10 percent; 14 percent expected to lose 11 – 15 percent, and 14 percent expected to lose more than 20 percent.

Do you expect to gain or lose income in the next three to five years as a result of clients using automated-advice tools?

Interestingly, 56 percent of those surveyed did not anticipate any change in income as a result of using automated-advice tools, while 43 percent expected to gain income. The clients they would be losing to automated-advice providers would not have large amounts of investable assets, and therefore would not have a measurable effect on the advisers' income. Others expect to gain income by increasing their operational efficiency through the use of automated-advice tools or by adding lower-net-worth clients to their practice.

SECTION II: Evaluation of IOSCO C3's Issues Regarding Automated-Advice Tools, and of Requests to IOSCO for Guidance

FPSB asked our Global CFP Professional Advisory Panel to evaluate the list of concerns expressed by regulators and summarized in IOSCO C3's *Report on the IOSCO Social Media and Automation of Advice Tools Surveys*. In addition, we asked the panel to evaluate areas where additional guidance from national regulators (or IOSCO) would be helpful.

Regarding the list of concerns summarized in IOSCO C3's report, FPSB asked whether "regulators should act," "regulators should monitor the situation," or whether there was "no action needed."

Issue 1: Firms classify the output of automated advice tools as something other than a recommendation (e.g., non-personal promotional material) to avoid regulations or to engage in regulatory arbitrage.

More than half of the respondents (53 percent) felt regulators should act on this issue, while 30 percent felt regulators should monitor the issue. Only 16 percent felt that no action was needed.

Additional comments for this question overwhelmingly dealt with the perception of advice, with the majority of those surveyed stating that where the end user assumed they were getting "advice" from an automated system, then the automated advice should be regulated in the same manner as human advice. "If clients think it is a recommendation, it is a recommendation and should be regulated as such," said one respondent. "Given that people are acting on the tool's output, I believe it is advice and should fall under the same regulations as human advisers," said another. However, one respondent who thought regulators should monitor the situation warned, "More regulation doesn't increase the quality of service offered by providers, nor does it increase the level of know-how and information of the public!"

Issue 2: Firms don't regularly update the customer information used for a suitability analysis of the automated recommendations.

Regarding this issue, the majority (56 percent) felt that regulators should monitor the situation, 30 percent encouraged regulators to act, and 13 percent felt regulators should do nothing.

Of those recommending that regulators monitor the issue, several noted that reliance on automated tools would need to ensure the data is based on up-to-date client information and that the system would need to require some level of mandated check-in with the client (at least annually) on the continued appropriateness of the advice based on underlying, and often changing, needs and objectives. Additionally, practitioners called for some form of client acknowledgement about the correctness of the data supplied, creating some level of responsibility on the part of the client for the automated advice provided. One respondent said, "Automated recommendations, just like manually calculated ones, are only as good as the data they are based on.... The automated software could be set to ONLY produce a recommendation if current data is up to date as affirmed by the client." Another practitioner commented that consumers need to take some responsibility if they are going to use an automated-advice tool.

Those who thought regulators should act were more concerned about the quality of customer information received through automated-advice tools. "Usually, Know Your Client and suitability forms can't capture the real present situation that individuals are facing," wrote one practitioner. "Forms have quantitative information, but they don't have qualitative information from the individuals or their families." Another suggested that regulators mandate that risk profiling, customer information, etc., be regularly reviewed, at least once a year.

At least one person who recommended no action by regulators put the onus on advisers. "Advisers should analyze their client base to see who could be better served on an automated basis," wrote one respondent.

Issue 3: Customers don't provide sufficient information for the automated tool to provide appropriate responses.

Half the respondents (50 percent) felt regulators should monitor the situation, 26 percent recommended that regulators should act, and 16 percent recommended no action. Six percent said they didn't know.

Those recommending that regulators monitor the situation saw both financial advisers and clients as responsible for gathering or providing sufficient information so that the automated tool could provide appropriate responses. However, they would like warnings to clients included in the system that elaborated on the risks of not providing sufficient information. "Regulators should monitor and instruct the financial adviser or advising firm to issue warnings to clients that in the absence of good/sufficient information, the output may not be appropriate," wrote one respondent. "There must be adequate warnings advising clients of the risks," wrote another.

Among those recommending that regulators act, several felt that any information provided would likely be insufficient. "Usually customers give minimum information according to their mood," wrote one practitioner. The adviser has an important role to play by using the relationship of trust to probe and better understand clients' real needs."

Another CFP professional from outside the United States wrote that he tried a “robo” website in the U.S. that recommends ETFs. “I was amazed at the small number of questions regarding my risk profile to enable me to invest hundreds of thousands of dollars,” the respondent wrote. “Of course, I didn’t invest and couldn’t as I was not a U.S. citizen. I just wanted to experience it.”

One person who recommended that regulators take no action summed it up this way: “It’s an adviser’s responsibility to identify who is best served via automation.”

Issue 4: Customers, believing that they received advice, buy riskier, unsuitable products.

On this issue, half the practitioners felt regulators should take action, while 43 percent felt regulators should monitor the situation. None of the respondents recommended “no action,” while six percent said they “don’t know.”

Those who felt regulators should take action expressed concern over mis-selling, saying regulators should implement necessary safeguards to protect the interests of clients. According to one respondent, regulation in his/her territory already helps to mitigate this kind of problem, adding, “In our regulation, the determination of whether a consumer received advice is in the mind of the consumer; therefore the regulation applies where they believe they have received advice.”

Respondents who preferred that regulators monitor the situation also expressed concern over poor outcomes, but for a variety of reasons. Wrote one practitioner: “There are MANY instances in Australia whereby if a machine had been asked, with the right programming, we wouldn’t be seeing the class actions that are underway today.” Another cited consumer motivations, saying, “Presumably, a client commences the robo-advice process with an outcome in mind. The responses will be channeled to delivering an outcome that the client thinks he or she needs. For example, ‘I want to buy shares, so I will respond in the affirmative to questions that will likely lead to that outcome.’”

Issue 5: Conflicts of interest between a firm and its customers result in an automated tool making recommendations that favor the firm at its customers’ expense (e.g., recommending proprietary products, churning, favoring preferred clients).

More than half (56 percent) the practitioners said regulators should act, and 43 percent said regulators should monitor the situation. One respondent felt these conflicts were already happening, with another calling it “a distinct possibility.” Across the board, respondents felt that recommendations from automated-advice tools should be made in the best interests of clients.

Issue 6: Firms lack sufficient internal controls to adequately supervise the use of automated advice tools.

Forty-three percent of respondents felt regulators should act on this issue, with 23 percent saying regulators should monitor the situation. Ten percent said they “don’t know,” while six percent felt regulators should not act.

Among those who favored regulatory action, one respondent wrote, “There should be regulatory guidelines on the processes to be followed by the developer of automated advice tools.” One practitioner who favored monitoring the situation said, “Many advisers

do not write or plan out the advice implementation – their paraplanners do it. So I hardly think automated tools are going to exacerbate the situation.” Another who responded with “don’t know,” said: “I would imagine this is a compliance and risk management issue, no different than traditional advice delivery.” Finally, a practitioner who did not believe regulators should act felt the responsibility should be on the firm: “Firms’ responsibility is to develop capability if this is the path they choose,” the person wrote.

Issue 7: Firms do not provide their customers with sufficient information/disclosure about using automated tools (e.g., instructions and risk disclosures).

The majority of respondents (60 percent) agreed that regulators should act in this area, and an additional 33 percent said regulators should monitor the situation. Three percent preferred no regulatory action, and three percent said they didn’t know.

Comments provided on this topic largely supported “sufficient” disclosures, at least at the same level as traditional face-to-face models, if not higher. However, one respondent who supported monitoring the situation said, “I think the issue is more about the client understanding the scope of automated tools, and what is – and more importantly – what ISN’T included.”

Issue 8: Firms do not apply proper suitability requirements when they recommend complex or illiquid products to retail customers through automated tools.

Sixty percent of respondents agreed that regulators should act on this issue, and 30 percent supported monitoring the situation. Six percent said they didn’t know, and three percent favored no action by regulators.

Among those supporting regulator action, comments focused on structuring the robo-advice engine to consider client needs, as well as an acknowledgement that there will be bad actors in spite of regulatory action. “Buyer beware, as long as adequate disclosures are in place,” wrote one practitioner who supported regulator action. “There no doubt will be providers that take advantage of clients. I can see property developers/sprinklers holding themselves out to be financial product providers who will tarnish this concept for all. A huge risk that regulators need to be on the front foot from day one.” A respondent who favored regulator monitoring added, “(Firms) don’t do it when humans are involved either. GFC anyone?!”

Finally, a practitioner who felt no regulatory action is needed, added a caveat about the level of complexity these automated tools should be dealing with. “I don’t believe complex products should be provided via automation,” the respondent wrote.

In addition to seeking specific feedback on the issues raised by IOSCO’s C3, FPSB asked its Global CFP Professional Advisory Panel to list any additional issues they thought regulators should consider. Their comments included the following:

- Consider automated advice as a tool for advisers, provided alongside a process that is focused on providing advice aligned to the client’s needs and objectives.
- Develop a competency profile of the issuers of automated advice, requiring these providers to be registered with appropriate authorities and to disclose their client net worth requirements.

- Provide fee-based support by advice issuers to those consumers who experience financial losses after executing advice, provided such consumers create suitable logs with issuers and regulators prior to availing of the advice.
- Remember, financial planning is a human engagement.
- Tightly regulate automated advice – approval should be provided through an industry body or from regulatory guidelines about what products and services can be provided to consumers using this method.
- “There is a difference between disclosure to, and comprehension by, the end user. What role does the fiduciary obligation play in this? So much of what we do as financial planners is about identifying issues that clients were not aware of when they came to see us. What role does robo-advice play in this?”
- “To ensure that clients are advised properly and in line with their best interests, mandate firms to ensure a face-to-face meeting at least once a year.”
- “While the automated advisory tools will make recommendations based on their algorithms, how will it incorporate human psychology, since it changes in every different environment despite dealing with the same problem?”

Next, FPSB asked the CFP professional panel about their level of agreement with areas that regulators identified, in which they felt guidance from IOSCO would be helpful in the future.

Area 1: Set bright lines on when the use of an automated tool constitutes advice, as opposed to providing an execution-only platform.

96 percent of the CFP professionals surveyed either agreed or strongly agreed that regulators should set bright lines on when the use of an automated tool constitutes advice, as opposed to providing an execution-only platform, with only one respondent indicating “don’t know.”

Area 2: Provide guidance on the specific policies and procedures firms should have in place when using automated tools, such as who should be permitted to use the tools, what type of education and training investment professionals should have before using the tools, and what types of supervision firms should use to oversee staff using the tools.

100 percent of the CFP professionals surveyed either agreed or strongly agreed that regulators should provide guidance on the specific policies and procedures firms should have in place when using automated tools, such as who should be permitted to use the tools, what type of education and training investment professionals should have before using the tools, and what types of supervision firms should use to oversee staff using the tools.

SECTION III: Guidance Sought from Regulators and FPSB

FPSB found that the majority of CFP professionals surveyed welcomed guidance from regulators, FPSB and/or their professional bodies on how best to incorporate automated-advice tools into their practice. In an open-response question, FPSB asked in what other areas CFP professionals would like to receive guidance from regulators regarding automated advice. Respondents cited the following areas:

- Compliance and disclosures required for advice delivered using automated systems
- Addressing debt and cash management using automated-advice tools
- Guidance around the potential to substantially grow the direct advice part of a business, given that a firm has automated services to clients who don't require or need comprehensive advice
- Guidance around when it is, and isn't, appropriate to use automated-advice tools
- Guidance around when such tools are considered "advice" tools and when they are considered to be "back-office" tools
- Internal controls, level of technology and frequency of updated disclosures
- How to conduct risk profiling of clients as part of the automated advice process
- Obligations around portfolio rebalancing when providing automated advice
- Segmentation of consumers as a target group for types of automated advice, along with associated risks and stop-loss indicators
- Standardization of the output of automated advice

FPSB Survey Results – FPSB Member Organizations

FPSB posed a set of questions to the chief executives and volunteer leaders (many of whom are also CFP professionals) of FPSB's 26 member organizations. Sixty-two people from 20 territories responded to FPSB's seven-question survey, and added additional viewpoints to the answers provided by FPSB's Global CFP Professional Advisory Panel. In addition to gaining FPSB member organizations' perspectives on, and a sense of the impact of, automated-advice tools in FPSB territories around the world, our survey determined the level of support among FPSB member organizations for action by regulators on this issue. Following is a report of the responses to each question (percentages may not total 100 due to rounding):

Feedback Summary – FPSB Member Organization Survey

Considerations for C3/Regulators:

- Professional financial planning bodies have not addressed the issue of automated advice with stakeholders, in part because the use of such tools is not prevalent in their territories. Of those who have discussed these tools with stakeholders, several say they are encountering a diversity of views from practitioners about whether these tools are an opportunity or a threat.
- Professional financial planning bodies are interested in gauging regulator reaction and wish to be kept up-to-date by FPSB on developments related to automated advice (but are likely to act on the issue over different time horizons based on territory developments and demand).
- FPSB member organizations would like: to see case studies on how financial services firms are using automated-advice tools; examples of best practices on how to use the tools; to be kept apprised of trends and regulator reaction to the increased use of automated-advice tools; and to participate in a global study group on the issue of automated advice.
- Automated advice brings opportunities and threats to the financial services marketplace, potentially putting more retail investors at risk while also increasing access to advice and products to larger segments of society.
- Automated-advice tools could lead more people to become "do-it-yourselfers," at the mercy of an automated system that may not be able to deal with complexity or that may not advise in the client's interests. However, younger generations, who are already comfortable with technology, may use social media to provide public feedback or critiques about their experiences, which could place pressure on purveyors of automated-advice tools to respond with better products.
- Regulators need to educate the public about automated advice and increase the public's awareness of the implications of using automated tools over taking advice from a professional financial planner or financial adviser.
- Automated-advice tools can address limited scope activities (e.g., investments, mortgages, etc.) but are unlikely to be able to exclusively address the comprehensive needs or behavioral finance issues of financial planning clients or high-net-worth investors.
- Automated-advice tools should be seen as a complement to, but not a replacement for, working with a competent, ethical financial planner or financial adviser who acts in the client's best interests.
- Automated-advice tools will enable financial planners and financial advisers to increase practice efficiencies or cost-effectiveness; serve clients who are younger, lower-income or with fewer investable assets; and free financial planners to devote more time to activities that bring added value to clients.

Do you consider the use of automated-advice tools to be an issue that your organization should address in your territory?

More than half of the respondents (56 percent) viewed automated-advice tools as an issue that their organization should address. Another 30 percent did not believe it needed to be addressed in their territory at present, and 10 percent were unsure.

FPSB asked its member organizations to explain the reasons for their answers, and their responses followed several themes:

FPSB member organization leaders who supported regulatory action felt it important to “get out ahead” of the automated-advice issue. “The issue can’t be ignored,” said one member organization leader. “Continual advances in technology will drive the use of these tools whether we like it or not. We need to ensure we contribute to the public’s education to ensure they are fully aware of the implications of using the tools, as opposed to taking advice from a professional adviser. Automation is all very well but the human element we bring to the table cannot be underestimated.”

Many FPSB member organization leaders who supported a monitoring approach said they did so because automated advice is not prevalent in their territories at the moment. Of those, some didn’t see a problem with automated-advice tools as long as they did not supplant the need for a human to help guide strategy. Others thought clients wouldn’t accept automated advice because of a lack of trust in technology, the potential for a loss of privacy, and because wealthy clients with complicated needs and financial situations would be less likely to accept automated solutions. Several respondents noted that automated-advice tools were designed for investment advice only. Because financial planning is holistic in nature, and investments are only one part of a client’s financial picture, those respondents didn’t see investment advice as being the same as financial planning. “We are very keen that consumers understand the relative merits of execution only, automated advice (whether online or through scripted human interaction), limited or focused advice, and financial planning,” said one respondent.

FPSB member organization leaders who weren’t sure if action by regulators was needed had questions about automated advice. “I can see the benefit of using tools for the purpose of collaborative advice,” said one respondent. “How does automated advice deal with behavioral finance?” One FPSB member organization leader said that automated advice is already subject to the territory’s regulatory regime, and is therefore not very popular. Another noted that regulators in the territory may start discussing automated-advice tools if activities continue to grow.

Recent articles have identified the use of automated-advice tools as both a threat to, and an opportunity for, financial planning. Do you view automated-advice tools as a threat, opportunity, neither or both, to the delivery of financial planning to clients?

The majority of FPSB member organization leaders consider automated-advice tools to be both a threat and an opportunity (43 percent). Their rationale is that automated-advice tools should be a complement to, but not a replacement for, working with a competent, ethical financial planner who acts in the client’s best interests. Of those who felt automated-advice tools are exclusively an opportunity (27 percent), some FPSB member organization leaders believed that having those tools could save time and money for both clients and financial planners, enabling financial planners to serve lower-

income clients, and freeing financial planners to devote more time to activities that bring added value to clients. Those who saw the tools as a threat (11 percent) felt they undermined the value of financial planning, and could lead more people to become “do-it-yourselfers,” at the mercy of an automated system that may not be able to deal with complexity or that may not advise in the client’s interests. However, one respondent commented that young people (Millennials) are accustomed to using information from multiple sources and that they don’t necessarily assume that any source is absolutely correct. “I see the Millennials situation as mostly an opportunity to broaden the application of financial planning advice to a much broader group than current delivery models can ever reach, whether as part of a ‘conventional’ practice’s tool kit or completely stand alone,” he added. Sixteen percent of FPSB member organization leaders regarded automated-advice tools as neither a threat nor an opportunity, with some saying that not enough is known about automated advice to render judgment. Another respondent felt that people who might use automated-advice tools probably wouldn’t seek the services of a financial planner anyway.

Have you discussed the issue of automated-advice tools with stakeholders in your territory?

The vast majority of FPSB member organization leaders (89 percent) reported that they have not discussed the issue of automated-advice tools with their stakeholders, with at least one FPSB member organization leader commenting that it’s “too early” to have the discussion. Many of the 11 percent of FPSB member organization leaders who say they have discussed the issue with their stakeholders have only held discussions at a high level, but agree that CFP professionals in their territories have diverse opinions on the subject. Said one respondent, “Some have concerns that the automated advice may encroach on some areas of traditional advice and financial planning services, while others have positive views that they may take advantage of offering traditional financial planning and investment advisory services to high-net-worth individuals as well as web-based automated-advice services for younger clients, or those with fewer assets to manage.”

Has your organization developed any guidance for CFP professionals in the use of automated-advice tools?

More than 83 percent of respondents said their organizations had not developed any guidance for CFP professionals in the use of automated-advice tools. Three percent said they had, while 13 percent said they didn’t know.

Do you anticipate that your organization will engage on the issue of automated-advice tools, by studying the issue, discussing it with stakeholders or developing guidance in 2015 or 2016?

Fewer than half of FPSB member organization leaders (48 percent) said they plan to engage their membership in discussions on the issue of automated advice, while 27 percent said they had no plans to do so. Another 22 percent said they didn’t know if they would engage on the issue in the next two years.

###