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Automation in Financial advice

1. Do you agree with the assessment of the characteristics of automated financial advice tools presented in this Discussion Paper? If not, please explain why.

NFU welcomes the initiative coming from the ESA on the public consultation on their discussion paper on automation in financial advice. We are also happy to see the cross-sectorial discussion in this paper. NFU recognizes the over-all assessment of the characteristics of automated financial advice tools as presented in this discussion paper.

2. Are there any other relevant characteristics of automated financial advice tools?

NFU would like to add to section 21 that the eventual advice from an automated financial advice tools also could be reliant on collection and analysis of big data and/or personal data (e.g. medical information) in addition to the manual input of personal information by the consumer and the logic of the algorithm. If so, the need for personal data protection will be even stronger. This of course depends on the sophistication of the tool used.

3. Are you aware of examples of automated financial advice tools being used in the banking, insurance, and/or securities sectors? Please provide examples, giving details of their operating process.

Non-applicable

4. Do you offer/are you considering offering automated financial advice tools as part of your business model? If so, please briefly describe: i) what type of entity you are, e.g., long established, start-up, a product provider, an intermediary; ii) the service you provide (e.g. to what extent do you integrate human interaction in the tool you provide?); iii) the nature of your clients; iv) your business model; v) who developed the automated tool (i.e. an external company or developed internally?); and vi) the size of your activity and/or forecast activity?

Non-applicable

5. Do you consider there are barriers preventing you from offering/developing automated financial advice tools in the banking, insurance and securities sectors? If so, which barriers?

Non-applicable

6. Do you consider the potential benefits to consumers to be accurately described? If not, please explain why.

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NFU recognizes that some segments of consumers may lack the experience of consulting a human financial advisor, but does not fully agree with the categories presented in section 33. A recent Swedish study (http://www.kvalitetsindex.se/wp-content/uploads/2015/10/Bank-20151.pdf)shows that even young people who are eager to engage in digital financial services – such as automated financial advice tools can be characterized as – want to consult an advisor face to face while making big financial decisions (either via video or in person). This is also the result from a recent Danish study, that shows that 63% of the respondents in the ages 18-29 years old states that they find it important to have a physical branch nearby (http://politiken.dk/oekonomi/privatoekonomi/ECE2260705/unge-overrasker-de-vil-have-bankfilialer-taet-paa/). This in two countries that are front runners in digitalisation. Therefore, we have reasons to believe that motivation to act upon financial matters may not be entirely correlated to the supply of automated financial advisor tools, and certainly not when it comes to bigger financial decisions. The effect could be the opposite, that consumers might feel less motivated to engage if the possibility of consulting a human advisor declines.

Also, NFU does not fully recognizes the description in section 36-37. Even if automated financial advice tools may provide more consistent advice to consumers, it will not be able to see to the needs of specific consumers as a human advisor could as all advice cannot be programmed. This could have a negative impact on the quality of the advice and information provided.

7. Are you aware of any additional benefits to consumers? If so, please describe them.

Non-applicable

8. Do you see any differences in the potential benefits arising for consumers in each of the banking, insurance and securities sectors?

Non-applicable

9. Have you observed any of these potential benefits to consumers? If so, please provide examples and describe the kind of benefit that has accrued.

Non-applicable

10. Do you consider the potential benefits to financial institutions to be accurately described? If not, please explain why.

NFU agrees to some extent with the potential benefits to financial institutions described, but would like to emphasize that the descriptions are highly speculative. For example, the quality of service may increase as described in section 43, but it may also decrease or remain unchanged for some consumers. It's highly individual what the consumer perceives as high quality of service. Other variables than time and quality of the product is weighed in when it comes to the quality of service, and social skills and knowledge of consumer needs and preferences may play in. A recent study on the Danish bank sector shows that service quality is more important than the product when it comes to happy costumers (http://www.kvalitetsindex.se/wp-content/uploads/2015/10/Banking-Denmark-2015.pdf). Ideally of course, the consumer should be provided with both. However, NFU recognizes that there is an increasing demand for digitalized financial solutions, such as automated financial advice tools, and that it's a good thing that the financial institutions see to the consumers' demand.

NFU would also like to highlight that it is not an absolute truth that it may be more cost effective for financial institutions to provide advice through automated tools instead of through a human advisor. It all comes down to the consumers' needs and demands. If the consumer doesn't feel comfortable with using automated financial advice tools or if their trust in the capability of the tool is low, it may be more expensive for the financial institution in the long run since it is possible that the consumer will choose to take their business elsewhere. Therefore, it may be more cost effective for financial institutions to diversify their business, e.g. provide advice trough both automated tools and human advisors.

As a representative for a vast majority of the employees in the Nordic financial sectors through our affiliates NFU would also like to emphasize that what this section describes are layoffs, which always should be the last resort. We would also like to highlight the cost of lacking human capital in the long run, since the financial institution will lose the cumulated knowledge and experience of the employees that cannot be obtained in other ways.

It should also be mentioned that automation in the banking sector often is used to handle repetitive and time-consuming tasks. However, many of these tasks are in existence due to the outdated IT-systems of the banks (https://issuu.com/magasinetfinans/docs/magasinetfinans1115). If the systems instead were to be updated many of the repetitive tasks handled by robots would disappear. This would be more effective in the long run.

NFU has some concerns regarding section 45, where it is stated that automated tools may make it easier for financial institutions to maintain records of the advice process, and to provide those records. Already today there exists extensive EU legislation concerning reporting and documentation of sales and advice and supervisory reporting requirements (for example CRR concerning the bank sector). We don't find that it will be any difference from today, since documentation is already a requirement.

11. Are you aware of any additional benefits to financial institutions? If so, please describe them.

If the automated financial advice tools mainly used are half-automated tools, e.g. with human interaction, they could ease the work of the employee and optimise customer service and experience. The human advisors could then be given the opportunity to focus on sales, customer relations and advice instead of collection and analysis of personal data etc. This will increase the effectiveness and therefore the profit of the institution. This is evident in some insurance companies, where the consumer initially is served by an automated service via phone and a human advisor is brought in to the call only when reaching a certain stage of the process or if the service encounters a question it cannot answer.

12. Do you see any differences in the potential benefits arising for financial institutions in each of the banking, insurance and securities sectors?

Non-applicable

13. Have you observed any of these potential benefits to financial institutions? If so, please provide examples and describe the kind of benefit that has accrued.

Non-applicable

14. Do you agree with the description of the potential risks to consumers identified? If not, explain why.

NFU recognizes the over-all description of the potential risks to consumers identified, and would especially like to highlight the risks that comes with the absence of human intervention. We find that the ESA's have identified and described the risks to consumers accurately but would like to emphasize that NFU believes that automated financial advice tools should be seen as a complement to human advice, and vice versa, in order to prevent these risks.

However, there are some description that NFU doesn't find to be completely accurate and therefore would like to comment on.

NFU recognizes the description in section 50, but would like to continue where the ESA's concludes their argumentation. According to an OECD pilot study from 2013 (a new study is being conducted as this is written) financial illiteracy is at worryingly high levels (http://www.oecd-ilibrary.org/finance-and-investment/measuring-financial-literacy_5k9csfs90fr4-en). There is therefore a risk that consumers that don't have the full understanding of their financial situation and/or the outcome of their actions will suffer from a complete switch to automated financial services. With an automated financial advice tool where the consumer inserts personal data and answers questions it's hard to tell if the consumer fully understands the advice and the possible outcome if they act upon the advice. A human advisor, that the consumer can meet face to face, could reduce the risk of misunderstanding by answering questions and ask questions to ensure the consumer's full understanding.

NFU agrees with the description in section 78. We would like to emphasize that the previously mentioned Swedish study on the banking sector shows that consumers, even though they are eager to engage in digital financial solutions and automated financial services, prefer to make their big financial decisions face to face with a human advisor (in person or via video). The interaction with the human advisor is crucial to provide service of high quality as well as building trust for the financial sectors.

15. Do you consider there to be any risks to consumers missing? If so, please explain.

NFU would like to emphasize that it is crucial for all consumers to have access to basic financial services. Both in order to be able to purchase products through payment services and save money in safe accounts but also to improve their personal economy. If automated financial advice tools don't make it easier for consumers to understand the advice given or the possible outcome if they act upon that advice, it makes up a serious threat to consumer protection. NFU would also like to highlight that the use of automated financial advice tools could increase risk of miss-selling. An algorithm for an automated financial advice could easily be programmed to be biased towards specific products and services if those products or services comes with provision for the financial institutions selling them.

NFU also sees a risk, if automated advice tools become as widespread as in the description in section 78, of creating an exclusive financial sector. Since automated advice tools may be marketed as the financial institutions budget alternative, there is a risk that the human advisors will be available only to those who can afford/are prepared to pay extra for it. NFU believes that a development like this would be highly disturbing. This is what has happened in the UK, where automated financial advice tools have increased after a ban on kick-backs for financial advisors in 2013. The affordable automated financial advice tools, such as robo-advisors, are mainly used by the average or low-income consumer. The qualified human advisors have mostly been reserved for the wealthier consumer, who can afford to pay an extra charge for the service of tailored advice. The consequence may be that many brits will receive a low pension due to the lack of qualified and tailored advice.

16. Do you see any differences in the potential risks arising for consumers in each of the banking, insurance and securities sectors?

NFU agrees with the description in the discussion paper, that the threat to the protection of personal data could increase when a growing amount of financial services are provided online. NFU can also identify a possible greater threat to the protection of personal data in the insurance sector, due to the sensitive nature of information provided (e.g. personal financial and medical information). The protection of personal data is crucial to ensure the consumers integrity. If this is not properly protected, NFU believes that the trust in the financial sector is most likely to decrease. If automated financial advice tools also aim at measuring and collecting data of personal fitness, weight, medical parameters or other information revealed online (e.g. in social media) in order to ban clients from certain products, the consumer protection could be threated.

17. Have you observed any of these risks causing detriment to consumers? If so, in what way?

Non-applicable

18. Do you agree with the description of the potential risks to financial institutions identified? If not, explain why.

NFU would like to widen the scope of the discussion. If financial institutions were to suffer a reputational risk, as described in section 81, it may increase the instability at the whole market. If one major financial institution was to suffer a reputational risk due to faulty automation, lack of trust for the automation tool etc. it is likely that the lack of trust will spread to other financial institutions, since it could have an effect at a greater number of consumers at the same time due to automated financial advice tools. In the end this can cause an erosion of trust for all the financial sectors.

Also, NFU does not consider the risk described in section 82 to be a risk. It is instead a beneficial to both consumers and financial institutions as it increases the possibility of choice for the consumer and competitiveness for the financial institution.

19. Do you consider there to be any risks to financial institutions missing? If so, please explain.

NFU is an organization for cooperation between trade unions in the banking, finance and insurance sectors of the Nordic countries. Through the affiliates, NFU represents a vast majority of the employees in the Nordic financial sectors. NFU would therefore like to highlight the risks that come with the potential layoffs described in section 40. A development as described in the section will lead to a massive loss of human knowledge, competence and experience that can't be replaced with automated advice tools. In the long run, this would have a negative impact on the financial institutions, as well as the whole sector.

Also, NFU would like to highlight that the financial sector has become more complex with emerging Fintech and Innovations business entering the market. It is important that these emerging sectors are included at the same conditions as the existing intuitions and in the social dialogue, in order the ensure a level playing field and to uphold employee and consumer protection.

Lastly, employees in the financial sectors that use digital devices or automated tools for their work must never be liable for shortcoming in protection of third parties' data by their employer or for any shortcomings that caused damage to consumers.

20. Do you see any differences in the potential risks arising for financial institutions in each of the banking, insurance and securities sectors?

Both the insurance and bank sector employs a high percentage of women while the IT sector suffers from a huge gender gap, with women being underrepresented. A switch to automated financial advice would mean a general loss of job opportunities for women, as well as causing a gender gap in the sector. In general, this is negative for the financial institutions as well as society as a whole.

21. Have you observed any of these risks causing detriment to financial institutions? If so, in what way?

Non-applicable

22. Would you agree with the assessment of the potential evolution of automated advice? Please provide your reasoning.

NFU agrees with the overall assessment of the potential evolution of automated advice. The Nordic countries are all front runners in the process of digitalisation and it is likely that the supply of automated financial advice tools will increase. However, as previously stated, we believe that automated financial advisory tools will function as a complement to the human advisor – and vice versa. As previously mentioned, recent studies from the Nordic countries show that even though the Nordic consumers are eager to engage in digitalized financial services, they still want to make their big financial decisions face to face with an advisor. Personal advice will continually add service value to customers beyond that which comes from automated financial services alone. To ensure competiveness by focusing on customer needs and satisfaction, personal advice should be seen as an essential service in the digitalization of the financial sectors.

The Danish study also shows that digital financial solutions is a hygiene factor but not something that necessarily creates happy customers. If the financial institutions scale back on human advisors there is a risk of creating discontent customers. Therefore, we have reasons to believe that the demand for human advice will continue even if the supply of automated financial advice tools increases (http://www.kvalitetsindex.se/wp-content/uploads/2015/10/Banking-Denmark-2015.pdf).

23. How do you think that the market for automation in financial advice will evolve in the near future in the banking, insurance and investment sectors? Please also provide details of any relevant data or information to support your views, where available.

As stated in the discussion paper it is possible that the use of automated financial tools will evolve differently across the sectors. Concerning the insurance sector, NFU believes that it is important to ensure the safety of the consumers' integrity and personal data. NFU believes that this is best done by including the possibility of human intervention in the advice process. We also agree with the description in the paper the rising awareness of data protections issues may also cause the consumers to feel less eager to provide their personal information through an automated financial advice tool.

NFU would also like to highlight once again that personal advice continuously will add further service value to customers beyond that which comes from automated financial services alone, especially concerning big financial decisions. It is likely that consumers might not feel motivated to make these decisions only through automated financial advice without any contact with a human advisor.

24. Are there any other comments you would like to convey on the topic of automation in financial advice?

As representatives for a vast majority of the employees in the Nordic financial sector through our affiliates, NFU would like to highlight the importance of social dialogue at all levels. As the financial sectors become more complex with an emerging Fintech and innovations businesses entering the financial market, it remains unclear how these businesses are effected by the regulations in the banking, insurance and securities sectors. For that reason, we welcome a cross-sectorial discussion on automated financial advice tools, even-though it might have to be even wider to achieve full inclusion.

There is also a need to address the social impact of digitalisation on employees. A recent study from McKinsey predicts that up to 25% of all jobs in the insurance sector will be lost due to digitalisation of the sector ([1] http://www.mckinsey.com/industries/financial-services/our-insights/automating-the-insurance-industry). At the same time, other forms of employment like crowd working and collaborative working are increasing. This could leave many workers outside of collective agreements and social insurance systems. Therefore, collective bargaining and social dialogue at all levels should be promoted.

We would also like to underline, once again, that even if automated financial tools were to increase, the human employee will still have a role to play in the future finance sectors. With new tools entering, the need for competence development and training for the employees will increase (CCMI/136 Effects of digitalisation on the services sector and employment – 150916). NFU would like to emphasize that it is the responsibility of the employers to provide the employees with such training and education. This is important not only for the institutions and employees, but also for the consumers in order to obtain sound financial advice and information.