



ROBO-ADVICE FOR PENSIONS

International experience: Behaviour and Innovation



Why now?

- A combination of market, regulatory and technological changes is driving the emergence of robo-advice
 - Shift towards DC pension schemes
 - Increased transparency leading to potential advice gap
 - Combination of automated investing and automated advice



The FinTech solution

- Cost reduction
 - Squeezing margins through improved efficiency
 - Cutting out the middleman
 - Low cost investment
- Accessibility
 - Low initial investment requirements
 - User-friendly interfaces
 - Investing made simple
 - Quick and easy online access



Different approaches followed by robo-advisors

- Types of account
- Investment products
- Investment recommendations
- Other services
 - Automatic rebalancing, tax-efficient investment, self-directed financial planning tools, regulatory compliance
- Pricing



Potential demand-side benefits of robo-advice

- Affordability
 - Reduced financial costs (fees)
 - Reduced search costs
- Accessibility
 - Online 24/7
 - User-friendly
 - No pressure/judgement
- Asset accumulation
 - Increased participation in stock markets



Potential supply-side benefits of robo-advice

- Objectivity of advice
 - Avoid biased advice from financial advisors
- Consistency of recommendations
 - Avoid human/emotional bias of advice
- Transparency of advice
 - Follows the logic of the algorithm



How does current regulation apply?

- New legislation may not be required, rather need to establish how existing requirements apply
 - Definition of advice
 - Suitability requirements
 - Qualification/licensing requirements
 - Remuneration requirements
 - Disclosure requirements
 - Dispute resolution



Potential new challenges

- Consumer disengagement
 - Suitability for target market
 - Communication
- Robustness of algorithms
 - Auditing, stress testing requirements
 - Risk of mass mis-selling
- Herd behaviour
 - Similar algorithms -> similar investment strategy...
 - But different criteria for investment selection, granularity of asset classes, investment methodology and assumptions
- Sustainability of business model
 - Consumer acquisition, low account balance, high turnover



Key takeaways

- Robo-advice platforms vary widely but all aim to increase accessibility of investing and to do so more cheaply
- Same regulatory challenges as financial advice from human advisors
- New challenges:
 - Check that algorithms are accurate and robust
 - Consumer disengagement



Recent OECD publications on FinTech and Pensions

Financial Markets, Insurance and Pensions
DIGITALISATION AND FINANCE



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TECHNOLOGY AND PENSIONS

The potential for FinTech to transform the way pensions
operate and how governments are supporting its development



<http://www.oecd.org/finance/private-pensions/latestdocuments/>
<http://www.oecd.org/finance/financial-markets-insurance-and-pensions-2018.htm>



THANK YOU!

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