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Report of the European Supervisory Authorities on automation in financial advice

Opinion by the EIOPA Occupational Pensions Stakeholder Group

1. Background

The OPSG Subgroup on Consumer Protection decided during the 4/10/2016 meeting in Frankfurt that OPSG will make a statement about the Joint committee of the European Supervisory Authorities (EBA, ESMA and EIOPAs) Report on automation in financial advice.

2. The report

The Report summarises the findings of the Discussion Paper (DP) on Automation in Financial Advice (JC 2015 080). The DP describes the more and more common situation that advice is provided to consumers without, or with very little, contact with persons and where the advice relies on computer based algorithms and/or decisions.

The report states seven preliminary conclusions, summarized below:

a) The benefits of automated advice identified in the DP were challenged by many respondents to the DP

b) The risks identified in the DP were mostly confirmed by respondents. However, comments were also indicating that the extent of advice given automatically, differs and may have an impact on the risks.

c) There are regulatory requirements that apply to automated advice, that could mitigate some of the risks identified in the DP.

d) The additional examples of automated advice given by the respondents confirm that innovation occurs in all three sectors, but seems to be most prevalent in the securities sector. Additional examples from the pensions sector were not given.

e) The three ESAs will continue to monitor the evolution of the market, due to the respondents' confirmation of potential growth of automation in financial advice.

f) Many respondents noted that combined models are more common.

The divergent definitions of "advice" in the sectors give uncertainty.

3. OPSG statement

OPSG supports the Report and it brings forward interesting questions. OPSG does however have a couple of comments on the findings regarding advice and occupational pensions.

First, in the Report, it is stated that the ESAs will continue to monitor the possible barriers to the development of automated advice and one of the barriers commented upon is the definition of advice, which is stated to be a "…possible barrier to the provision of holistic financial advice across banking, insurance and pensions and securities products".

According to OPSG the comment of holistic financial advice between the different sectors should be used with caution. The specifics of the pensions sector are materially different from the other sectors, due to the almost life-long accumulation period and thereafter the decumulation period. Due to this, the pension savers' needs could not be compared without caution to other savers' needs of advice.

Secondly, the responsibility for the outcome of the savings differs between the pensions, the insurance, the bank and the securities sector. For pension savings the employer has a responsibility, and could therefore have an interest in how and if advice is given. This is not reflected in the Report.

And third, the contractual context differs from what is common in other branches, (due to e.g. the involvement of the employer, and in some membe rstates, the social partners).

Finally, occupational pensions also have a social aim which in some member states is reflected in labour market and social regulation, affecting the need and formulation of advice and OPSG stresses the need for a level playing field between advice being provided via automated tools (e.g. robo-advice) and advice being provided via other tools.

4. Summary

According to OPSG it is important not only to note the similarities between the financial markets, but also the differences. The occupational pensions sector differs from the others, du e to e.g. the responsibility of the employer, the involvement of the social partners and the many times extremely long saving periods.