

Joint Committee of the European Supervisory Authorities

Submitted via www.eba.europa.eu

Joint Committee Discussion Paper on automation in financial advice

London, March 3rd 2016

Dear Sirs,

We welcome the publication of the *Discussion Paper* (the “**DP**”) on automation in the financial advice and appreciate the opportunity to provide you with our comments.¹

Introduction

Markit² is a leading global diversified provider of financial information services and financial technology solutions.³ Founded in 2003, we employ over 4,000 people in 11 countries and our shares are listed on Nasdaq (ticker: MRKT). Markit has been actively and constructively engaged in the debate about regulatory reform in financial markets, including topics such as the implementation of the G20 commitments for OTC derivatives and the design of a regulatory regime for benchmarks. Over the past years, we have submitted more than 130 comment letters to regulatory authorities around the world and have participated in numerous roundtables.

In the context of the Consultation Paper, Markit’s most relevant service is our Markit On Demand service which supports mostly investment managers, wealth managers, and brokers in creating solutions to facilitate their clients’ investment decisions.⁴ As a managed technology service working closely with our customers, we create innovative engaging designs that are easily implementable and support investment decisions. We believe Markit is one of the world’s largest employers of web designers focused solely on the presentation of financial information and workflows, and we are expert in presenting complex information so that users can understand and use it to make informed investment decisions in a timely manner. During a typical week, our services support more than 2.3 billion page views of dynamic content and more than 2.5 million unique users log into the pages we host. Markit On Demand’s unique position as the provider of technology services to a large number of asset managers and other investment professionals in numerous jurisdictions means we have broad-based experience of how financial institutions connect and interact with their clients.

Comments

Question 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.

¹ This letter contains the text used in Markit’s response, although the form of the response was different given the requirement to complete an online form and this has also led to some repetition. Not all questions have been answered.

² Please see www.markit.com for further details.

³ We provide products and services that enhance transparency, reduce risk and improve operational efficiency of financial market activities. Our customers include banks, hedge funds, asset managers, central banks, regulators, auditors, fund administrators and insurance companies. By setting common standards and facilitating market participants’ compliance with various regulatory requirements, many of Markit’s services help level the playing field between small and large firms and herewith foster a competitive marketplace. For example, Markit’s KYC Services provide a standardised end-to-end managed service that centralizes “Know Your Client” (KYC) data and process management.

⁴ See <https://www.markit.com/product/markit-on-demand> for more details.

We broadly agree with the categorisation of automated financial advice as set out in the DP.

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

The Joint Committee should note that most advice tools described in the DP tend to be “point in time” tools which evaluate the circumstances at a particular instance and circumstances. We believe that further value can be generated from considering: 1) how these tools link together in creating a broader financial picture; and 2) how these tools can be used to track, evaluate and prompt a user to take subsequent action. For example, as time passes and the overall sum of investments grows, there might be a need to re-evaluate tax consequences or to alter your asset allocation as the time to retirement decreases.

Question 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.

Our experience has shown that many different kinds of automated services are being offered today, that vary enormously by firm and between industry sectors and jurisdictions. We have found that the use of automated services is much more developed in North America than in the EU. We would be happy to share our experience designing and building services associated with the automated advice process that operate in many different jurisdictions if the Joint Committee would find it useful.

Question 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?

Markit On Demand has focused on the presentation of financial information and tools for nearly 25 years, particularly focused on the retail investor.⁵ As one of the world’s largest employers of web designers focused solely on the presentation of financial data and workflows, we are experts in designing, developing and hosting solutions for users to make informed investment decisions in a timely manner. During a typical week, our services support more than 2.3 billion page views of dynamic content and more than 2.5 million unique users log into the pages we host. Markit On Demand’s unique position as the provider of technology services to a large number of asset and wealth managers and other investment professionals in numerous jurisdictions means we have broad-based experience of how financial institutions connect and interact with their clients.

Question 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?

As we have highlighted in other sections, the automated advice sector in the EU is less developed than in some other jurisdictions, particularly when compared to North America. Our experience suggests that a lack of regulatory clarity around the classification of robo-advice services is holding back investment in anything but the most cursory of services in the EU. As well as holding back the development of the sector, this situation

⁵ Having been acquired by Markit in 2010.

stops providers well short of being able to provide any meaningful insight, education or guidance. We therefore encourage the Joint Committee (and legislators) to provide the clarity that would allow portals to offer contextual information, education and customised guidance for potential investors prior to any sales process and formal advice process being offered.

Additionally, the Joint Committee should take into account demographic considerations around the use of automated services. Specifically, as described in a recent wealth management report from Capgemini,⁶ individuals under 40 years of age tended to have a lower level of confidence or trust in their wealth manager and associated firm compared to their older counterparts. The same report found that those in that same younger age bracket were also more likely to use automated advisory services and place a premium on the digital offering from their firm.

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

While we generally agree with the benefits that the Joint Committee outlined in the DP, we recommend it consider three further benefits:

- *First*, educational value. Levels of financial literacy in the population are generally low and, regardless of whether the person ultimately takes formal advice, using robo-advice or guidance services potentially has educational benefits for consumers. We believe that simple to use, accessible websites can allow investors to receive examples of different investment options open to them and enable them to either make a more suitable investment decision or realise that it would be worth seeking more tailored advice.
- *Second*, technology enables investors to move away from the idea that choices about investments and financial advice are a one-time event. We believe that investors need to be able to – and should be encouraged to – stop seeing financial planning and advice as something that happens only as a one-off (i.e. a decision that is made once and then forgotten about). Instead, advances in information technology and well-designed websites now make it much easier to maintain a continual engagement and access to information about the performance of investments and initiate changes over time whenever desired or necessary.
- *Third*, less affluent consumers will benefit as the marginal costs of extending a service build for higher-worth clients to lower-worth individuals would be relatively low. We believe it is the potential scalability of solutions target at high worth clients that means services could become available for the greater number of individuals with less complex needs (or lower investment amounts) that would otherwise not attract developers because of high costs of developing specific solutions. We therefore recommend the regulatory framework encourage (for example by making it simple to extend services to different target markets) this kind of cross subsidisation.

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

We agree with the risks to consumers that the Joint Committee set out in the DP. However we would comment that the risks identified are general risks of financial advice or internet use more generally and this highlights that the regulatory framework for advice, however it is delivered, should be compatible with the way people organise their life in contemporary society. It is also worth considering that in many areas of business, practices have migrated to being more web-based and so many of the issues that become more concerning

⁶ United States Wealth Report, December 2015, www.us-wealthreport.com

with web based solutions, for example cyber security or liability around contracted out services, have been adequately resolved elsewhere.

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

Our views are based on the experience we have gathered working with our many clients in North America and Australia as well as the feedback we have gathered when working with potential users of our services in Europe. We would generally recommend that the Joint Committee aim to develop a framework that allows people access to a flourishing digital market and enables the benefits of technical solutions built for higher net worth individuals to be made available, with the appropriate protections, to people with fewer assets. We believe that such approach would help reach a larger number of potential investors who would benefit from advice and guidance, but, with fewer assets, advisors may not target them specifically.

As we have stated above, we believe that the Joint Committee should provide greater clarity to the industry as to what is “guidance” or “education” and what will be seen as regulated advice. Clear markers between categories would help. We believe that investor protection is absolutely vital and asset managers should take responsibility for the information they provide to their clients. However we also believe that an overly protective system, especially around educational material, will ultimately lead to detriment.

We hope that our above comments are helpful. We would be more than happy to elaborate or further discuss any of the points addressed above in more detail. If you have any questions, please do not hesitate to contact the undersigned or David Cook at david.cook@markit.com.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'M. Schüler', with a stylized flourish at the end.

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