

# INNOVATION IN FINANCIAL SERVICES

## DEVELOPMENT ROBO ADVICE AND (SEMI)AUTOMATED PORTFOLIO MANAGEMENT

Technological developments offer new opportunities for both financial advice and investment services. The AFM notices the rise of **robo advice** on high-impact financial products, the growth of **(semi)automated portfolio management (SAP)** and the opportunities of both forms of financial services. However, these opportunities only apply if 1) potential risks are overcome and 2) certain conditions are met. Although in current law and regulations no distinction is made between automated and human financial services, automated financial services have their own **specific points of attention**. With the following two publications, the AFM provides **guidelines for the (further) development** of automated financial services, with specific attention for the duty of care.

The AFM has published two separate papers to accommodate 1) robo advice and 2) (semi)automated portfolio management. Because of the specific laws and regulations on investment services, the AFM has chosen to publish two separate papers.

1

**VIEW ON ROBO ADVICE  
ON HIGH-IMPACT FINANCIAL PRODUCTS,  
SUCH AS MORTGAGES**

2

**GUIDANCE ON THE DUTY OF CARE IN  
(SEMI) AUTOMATED PORTFOLIO  
MANAGEMENT**

### OPPORTUNITIES OF INNOVATION

- Automated financial services offer the opportunity for a consistent high quality, as long as the conditions outlined on the next page are met
- A part of the consumers will perceive automated financial services as more accessible and available, due to the lower costs and digital nature
- The use of different sources of customer data can lead to a more suitable advice or a more suitable investment portfolio.

### QUALITY OF SERVICES

- Automated financial services have to reach the same high level of duty of care as human financial services, but additional points of attention apply
- Therefore, the AFM focuses especially on the client onboarding and the requirements on IT and algorithms, when developing robo advice or (semi)automated portfolio management
- On the next page, a summary is included; for a total view, the AFM refers to the two published papers

## VIEW ON ROBO ADVICE

### *Know your customer*

- Check whether the provided information is plausible and detect contradicting answers
- Determine the cohesion between the information obtained
- Detect doubt and respond to it
- Ask additional questions to determine the customer's objectives as specific as possible
- Use the opportunities of technology to accurately determine risk tolerance
- Use the customer's knowledge and experience to tailor the tone and explanation of the robo advice, for example with personalized visuals

### *Determining the target market and products*

- Determine for which product group and products the robo advice is provided
- Determine for which target market the robo advice is compatible

### *Additional points of attention*

- Make use of target market assumptions by researching them and presenting them to customers
- Limit deviations from the advice
- Take customer data and privacy law into account
- Make use of the opportunities of digitalization when providing after care

## (SEMI)AUTOMATED PORTFOLIO MANAGEMENT

### *Know your customer*

- Develop algorithms and online tools in which the outcome is in the best interest of the client
- Use the possibilities of digital communication, such as interactive graphs
- Use 'smart' questionnaires during the client onboarding and ask personalized exit and challenge questions.
- Consider using a quantitative method for the determination of risk tolerance
- Use objective external sources to receive additional reliable client information.
- Use client data and behavioral insights in the best interest of the client
- Adopt a policy to update client information

### *Determining the target market and SAP*

- Make sure the SAP concept is compatible with the target market of the distributed products
- Determine the target market and distribution strategy in addition to the individual suitability assessment

### *Additional points of attention*

- Pay extra attention to clear information, so that the information can be understood without client contact
- Involve different specialisms in the development and evaluation of the services
- Make sure the client information is protected and processed correctly

## IT/ALGORITHMS

- Ensure a careful development and maintenance of the IT-system and the algorithms
- Test the algorithm thoroughly before putting it live and continuously monitor the operation
- When outsourcing activities, the party that outsources remains responsible
- Ensure a thorough audit trail, making sure the outcome is reproducible
- The AFM monitors the growth path of algorithms and will provide additional guidance when necessary