

The human touch

Why chatbots will not be replacing real-life investment advisors anytime soon

ChatGPT has caused a stir since its release in November 2022 by using natural language processing to answer questions in a human-like way.

Launched by OpenAI, a research and development company, the chatbot is making headlines with the way it pulls together data from multiple online sources. In just a few examples, students are using it to write their essays, songsters to compose their lyrics and techies to debug their code. Lazy romantics are even asking the platform to pen love letters on their behalf.

Like many industries, the financial sector is wondering how AI-enabled platforms are going to shape its future: Could chatbots take over from humans in giving better investment advice?

A source of information, rather than advice

Financial firms are already using platforms powered by machine learning to give their customers timely data on markets and stocks, boost investor education, and signpost information from a wide range of sources. Trends like these should gain traction as the technology improves, combining generative AI with next-generation banking to introduce virtual relationship managers to millions of new customers.

Yet it's important to draw a distinction between robo-advisors and real ones, as well as what each offers. Platforms like ChatGPT are generating important content about the investment world, like explaining the differences between key asset classes or reviewing the different ways that investors might calculate the valuations of their portfolios. But, in contrast to human advisors, they are better understood as gateways to information rather than providers of considered advice.

What's the evidence on how chatbots compare to financial professionals?

A quick request to ChatGPT for investment tips generates uncontroversial recommendations such as diversifying your portfolio, investing for the longer term, and implementing dollar-cost averaging in your approach.

But, tellingly, another of its recommendations is to seek professional advice – which means talking to real-life experts, not just a platform that's been programmed purely in how to respond.

Studies of how ChatGPT answers questions are flushing out some of the reasons why there's no substitute for the human touch. Some point to its limited knowledge of news and events after 2021, for instance, which curtails its capacity to give up-to-the-minute counsel. Others highlight how some of its responses to more specific questions about investment planning have failed to account for changes in client incomes or have struggled to factor in potential

shifts in interest rates – a significant flaw, given the tightening in the monetary cycle over the last 18 months.

A broader assessment is that chatbots are better at looking backwards than forward in the information they provide. For the moment, they also rely much more on the ‘what is’ than the ‘what might be’ in their analysis. Indeed, the bots have often been programmed to refuse to give opinions on the future performance of stocks or markets, saying they can’t make forecasts with any certainty. That’s a problem when investors need at least an element of predictive insight to maximise their returns.

Just as crucially, chatbots lack the human touch that allows investment professionals to understand the needs, goals and values of their clients. Wealth planners tailor their advice to the ages, employment backgrounds, family situations and retirement aspirations of their customers, developing a deeper understanding of their clients’ attitudes towards investing. While some chatbots are starting to personalise their responses based on the information they are given, they aren’t capable of showing the same levels of awareness. They trail in other traits as well, like probing deeper in their questioning of users or challenging responses that sound implausible or incorrect. As an example, people often underestimate their financial outgoings, which has a direct impact on how much they can invest on a regular basis. Real-life advisors should pick up on these errors but chatbots largely don’t, assuming that the information is accurate.

Simply put, chatbot technology still has some distance to advance before it’s ready to rival the empathy, experience and insight that the best financial planners provide in person. While platforms like ChatGPT may sound human, they aren’t yet a substitute for the real thing.

CITE: <https://fortune.com/recommends/mortgages/i-used-chatgpt-as-my-financial-planner/>

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