Sherry Fairchok

Your Guide to Finfluencers

Article

What we've been thinking about: We've spoken before about **financial services marketing in social media**—but until now, we haven't zoomed in on the controversy surrounding "**finfluencers**" and the quality of financial advice they provide, why they've attracted so many followers, what trends are helping them thrive, and what they can teach us about reaching younger generations.

What's a finfluencer? They're people who use their social media platform to share videos that cover personal experiences, tips, opinions, and advice about investing, budgeting, financial trends, and the economy.

- Many of these social media personalities push all types of instruments, ranging from equities to margin forex—and, famously, before the **FTX** crash—cryptocurrencies.

They're followed by millions on social networks like TikTok, Instagram, Twitter, Reddit, and other channels, and have become a major source of financial advice for millennials and Gen Z.

- **Sixty percent of investors from ages 18 through 34 use social media as a source of investment information,** according to a recent Finra Investor Education Foundation report. That compares with 35% of those ages 35 through 54, and 8% of investors age 55 and older.
- Just over half of US consumers said they purchased a product recommended by an influencer in 2022, compared to 46.2% in 2021.

Nice work, if you can get it: Some finfluencers, like Humphrey Yang, became financially literate through their upbringings or employment, and want to share their knowledge. Others, like Tori Dunlap, are self-educated, with stories about their journey to financial independence, or how they resolved their own debts—some have been able to retire early thanks to their savings and investment methods—and seek to teach others how to do the same.

- Finfluencers make money from brand promotions through sponsored partnerships and affiliate links.
- The biggest finfluencers also have revenue streams from e-learning courses, book sales, and speaking engagements.

Why are people listening to them? The rise of finfluencers is symptomatic of other problems the financial services industry faces.

Trust in traditional financial and investment firms is low, and the expense of obtaining advice from financial professionals deters people from seeking formal financial advice.

- The UK Financial Conduct Authority's 2020 Financial Lives survey found that **26% of consumers distrusted the industry, just 35% of 18- to 24-year-olds trusted it,** and only 17% of those with £10,000 (US $12,527) or more in investable assets had sought advice.

As a result, people are becoming self-directed investors, relying on finfluencers to boost their confidence and provide them with information.

Social platforms have a large audience and their content is entertaining and informative. How and where consumers get financial information is changing.

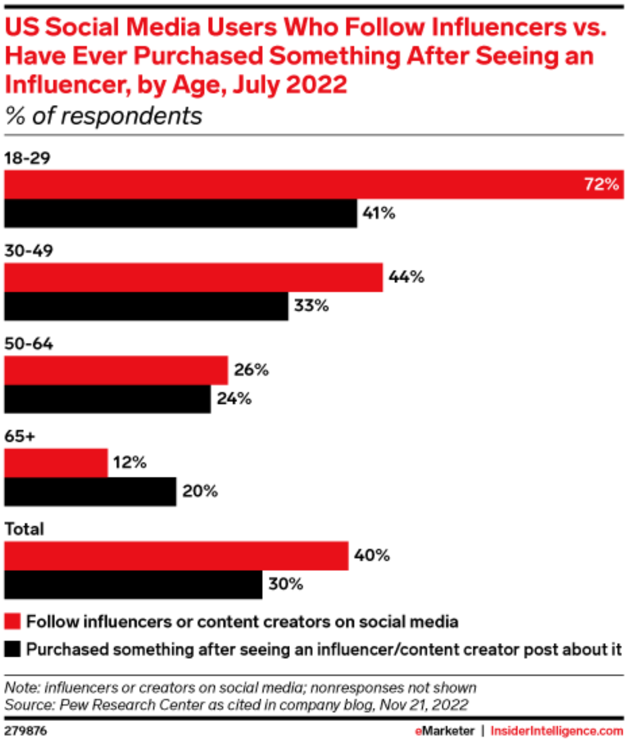
- Some still buy self-help books about how to budget, save, and invest, and many still use Google—but now they're also turning to TikTok and typing prompts into ChatGPT.
- Finfluencers have made finance more accessible to the general public by sharing their advice in snackable, easy-to-understand formats accessible via a smartphone.

Gen Z and Alpha consumers are thinking more about money. They're curious and seeking to improve their financial literacy, leading to a greater demand for financial content from influencers.

- The 2023 Northwestern Mutual Planning & Progress Study found that **79% of Gen Z and Millennial respondents believe their financial planning needs improvement,** a four-percentage-point increase from last year.

Finfluencers are capitalizing on a widespread lack of financial literacy and offering their followers educational content.

- The US government hasn't made much progress in making this subject part of the public school curriculum.
- Regulators are falling down on providing financial education programs on social media.
- And regulatory constraints may inhibit traditional financial firms from attempting to launch innovative educational programs.



Finfluencers are a force for financial inclusion: Financial education was once the preserve of the wealthy and middle class, passed along as part of one's upbringing. Social media is essential in democratizing access to financial education and personal finance. When a lifestyle influencer discusses money on their channel, they expose educational content to people who may not be actively searching for it, but for whom it is still relevant.

- Marginalized and underserved communities like women, people of color, and younger adults find a video far less intimidating than scheduling a meeting with a financial professional in a more formal setting. As a result, more are prioritizing their financial health and expanding their financial knowledge.
- Finfluencers provide relatable, lived experiences. Through engaging storytelling, they connect with their communities on topics that their followers' friends and families often aren't talking about.

Finfluencers evoke mixed emotions in financial professionals: They're not bound by the same regulations, and the rules that do apply to finfluencers aren't always enforced. That means there aren't many limits on what they can say and little reason for them to disclose who's paying them to say it.

Even when finfluencers aren't doing anything wrong, they may offer advice that's only partially accurate or that's inappropriate for a specific investor. As a result, some financial advisors are spending more time trying to keep clients and prospects from blindly following this type of advice.

- Barron's recently reported on the challenges advisors face in **diplomatically dealing with consumers who want to follow a strategy they've seen touted on a social media video,** like short-selling a particular stock or investing only in Roth IRA accounts.

Regulators are starting to step in: The increasing number of influencers has also alarmed financial market regulators globally. Some are merely issuing warnings about abuse and fraud, while a few are updating outdated social media guidance to address them or taking enforcement actions.

Regulators' main concern seems to be what finfluencers promote and how.

- Some finfluencers frequently fail to disclose that they are being paid by the entity they're promoting.
- The informality that makes finfluencers so engaging can often mean their promotions break regulations.
- More often than not, it's unclear if influencers have any educational or professional qualifications to offer financial advice.

US regulators haven't come out with any warnings or cautions against finfluencers. But that doesn't mean that they aren't paying attention.

- Last year, the US Securities and Exchange Commission (SEC) prosecuted eight Twitter influencers for using social media platforms Twitter and Discord to manipulate exchange-traded stocks in a $100 million pump-and-dump scheme.
- And celebrity Kim Kardashian had to pay $1.26 million to settle SEC civil charges that she promoted crypto on social media without disclosing she was being compensated to do so.

What can marketers learn from finfluencers? The follower base of finfluencers matches many firms' target customer demographic. As more consumers turn to social media for financial advice and recommendations, banks and other financial institutions can learn from their techniques.

- Nearly half of all CMOs expect to increase their spending on influencer marketing in 2023, per a recent Gartner survey.
- A IOSCO report last October found regulators had seen more use of influencer marketing by firms, and 43% of European firms planned to increase their use.

Banks that decide to work with finfluencers must comply with regulatory requirements while recognizing that they can't treat finfluencer channels just like traditional channels. Social media followers are looking to be both entertained and informed, and they're seeking relatable content. Finfluencer marketing is powerful because it leverages a third party's voice, which differs from the bank's more traditional marketing. To be effective, that differentiation must be clear.

- Banks must encourage finfluencers to use their own voice, style, and creativity—while also making clear that some lines can't be crossed (such as calling a fintech a bank if it lacks a bank charter).
- And regulators also need to clarify what third parties can and can't say about their brands, especially in formats like video where it's difficult to support written disclaimers.

For a deeper dive on best practices in leveraging influencers, read Jasmine Enberg's "Influencer Monetization 2023: Payment, Content, Platform, and Measurement Tactics to Optimize Creator Campaigns."