Game-like trading apps under scrutiny by UK

watchdog for encouraging 'gamblinglike behaviors'

Article









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The news: The UK's Financial Conduct Authority (FCA) has warned that the gamification of trading apps can lead to amateur investors taking on more risk, being misled by spurious information, and making investments which aren't in their interests.

Gaming trading clampdown. The FCA surveyed 3,000 app users as part of a <u>review into</u> <u>firms' use of "game design" features</u>. The research found:

- App features may blur the lines between online investing and "gambling-like behaviors."
- Gamification techniques that use positive reinforcement were implemented, including celebratory messages for making a trade and the use of points, badges, and rewards. The FCA said these can lead to people taking on more risk when investing.
- Push notifications were used, which can make people trade in a riskier way, with the biggest impact on younger and less-experienced investors.
- Stock leaderboards showing the largest price changes have been proven to lead consumers into behaviors that result in poorer returns.

The bigger picture: Trading apps are increasingly employing gamification tactics in the battle to keep the attention of Gen Z investors. Apps like <u>eToro</u> and <u>Chip</u> have flooded the market following the **GameStop** stock saga in early 2021 and the investment craze for commission-free trading apps like **Robinhood**.

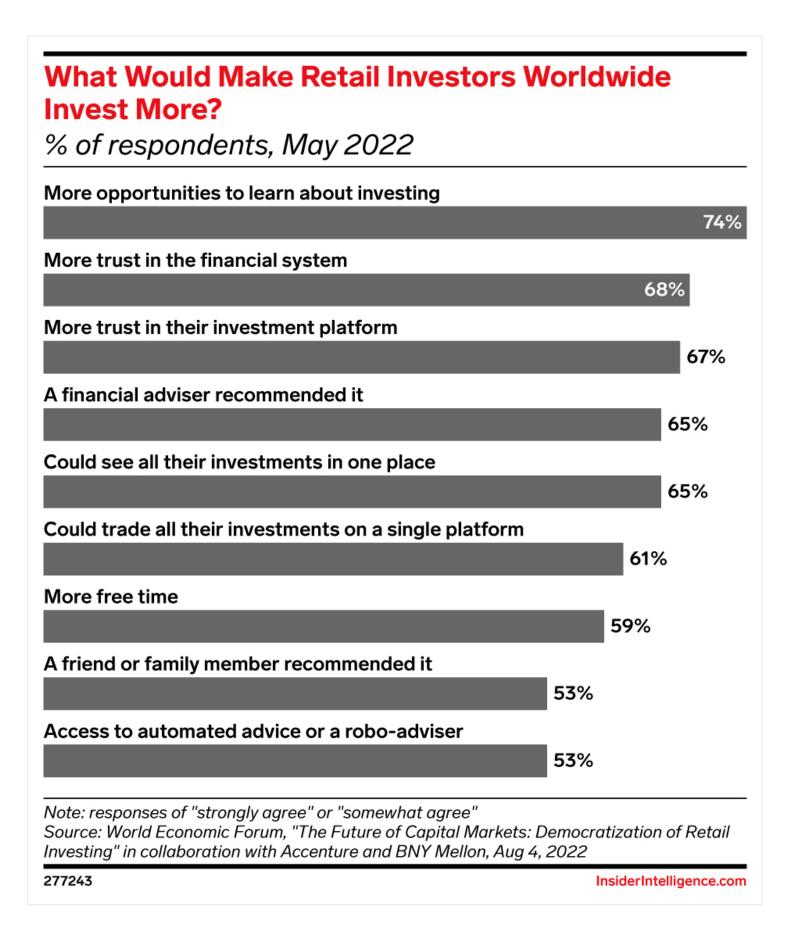
However, as the FCA points out, gamification features can encourage risky or addictive behavior in investors. And the UK regulator looks set to clamp down on firms potentially exploiting amateur traders.

What firms can do: Trading apps in the UK should review their offerings for any features that could harm consumers and lead to future punishments from the FCA.

They should also ensure they are providing support to customers, especially those showing signs of addictive or gambling behaviors. Apps can introduce features to help support users in controlling their investing. Examples of this are **Freetrade's** trading break or features that educate users on amateur investing and the associated risks.







The bottom line. Gamification can be a force for good, helping to <u>improve kids' financial</u> <u>education</u> and prompting users to <u>adopt healthier habits</u>. But its potentially addictive nature can be harmful, particularly when it's linked to consumer spending. As regulators acknowledge this, trading apps in the UK need to prepare for tougher industry oversight.

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