



**HARVARD**

Office of the Vice Provost for Advances in Learning



## **MODULE 4 UNIT 4**

### **Video 1 Transcript**

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CHRISTOPHER MALLOY: In this module, we explored the extent to which FinTech can tap into the personal finance market. Everything from your own home, to your insurance policy, to your retirement policy. And we want to think about the implications of automation in this space, and is it really making consumers better off? And making it easier for them to make these huge life decisions?

And so, as we transition, and think about the role of automation in personal finance, what we really want to think about, and struggle with, is to the extent to which we even need financial advisers at all, and how much are they going to be disintermediated completely? Run out of existence, because of the fact that they're very expensive. And when we think about the cost that people are paying, you know 1, 2% a year, is that a cost that's worth paying on the personal finance side?

LAUREN COHEN: Well what did they do for you? Right. That's the question. So, you used to go to these advisors, the same reason you would go to any other expert, right. If you got sick you went to a hospital, you went to a doctor, right? Because what did you know about treating yourself? Right. There was an expert who could do it for you.

If your car broke down you went to mechanic, right? Because they knew how to deal with your car, and that was where their expertise was. And so, in the same way, if I have this big part of my life that I didn't go to school for, right. I'm very good at what I do, but I didn't go to school for finance, so that's kind of an unknown area for me – I go to the expert, and they figure it out, and they kind of push through what I'm supposed to do on that dimension.

MALLOY: Yeah, no, that's a great point. And in the DFA case, there was a great anecdote, that Bob Martin says, which is, you know, would you go ask a random person to go do surgery on their leg—

COHEN: Yeah.

MALLOY: —which is where you go to ask a surgeon to do, and this is the same sort of analogy here in finance.

COHEN: But here's the interesting part, like, are there robo-doctors? Right. Or are there robo-mechanics?—

MALLOY: Exactly.

COHEN: —And so we kind of haven't gotten there yet, and yet it seems like FinTech is leading that charge. So, is FinTech kind of the canary in that coal mine to say, “Okay, finance is the first thing that we're moving toward this robo-aspect,” and then eventually we will move toward that? For a more kind of rote medical needs, and other types of needs? And so, this is the kind of first mover in this big push, or is there something unique about finance that allows us to move that over, where we can't do these other things. And I'm not sure, and to be honest with you, the question is still open, right? It's unclear. Is wealth-front going to succeed? Well, I don't know – they really only have very little penetration in this market, right? Will people willing to give over these types of things that they used to hold on to—



MALLOY: Because financial management is ultimately a trust business, you know? It's giving your most trusted assets over to someone else—

COHEN: Yeah.

MALLOY: —and giving that over to a robot is a very difficult leap—

COHEN: Yeah.

MALLOY: —I think for many investors to make.

COHEN: Yeah, and the truth matter is, the jury's still out, like we said. But if the jury's still out on that, then the jury hasn't even convened for things like retirement and housing, right? Because those are two areas where we see FinTech trying to move into – so we have Airbnb, we have Zillow – and on the retirement side as well, where we've seen almost no penetration. And so, if there were a somewhat of an open question about how this would disintermediate financial advisors, it's a much bigger open question under how it's going to intermediate real estate, and this retirement investing—

MALLOY: Agreed, and then when you think about the scope of these FinTech firms going forward, the assets, potentially under management, that you can tap into in the retirement market, in the insurance market—

COHEN: Massive.

MALLOY: —in the real estate market, are enormous, and dwarf some of the other penetration and adoption that has occurred in FinTech. And so, it'll be interesting over the next decade to see what happens in those bigger, much more important areas of personal finance.

COHEN: Right. And so they—look, the two biggest assets that most individuals hold are their house – in terms of their housing wealth – and their retirement wealth. And so these, you can imagine, even if they'd be willing to part with a part of their wallet, right? Mobile payments, or banking, right? They say, “Well, bank is just this kind of stuffy place I used to go to every once in a while, and they just kept my money safe—ah big deal. You know, anyone can do that, and I'm happy to just do that over my phone.” You can still imagine them allowing someone else to do that, but still, drawing the line at where they live, where they come every day, and looking at the future of all this wealth that they've built up, right? All this money they've worked so hard for, that they wouldn't want to just trust a robot with that.

MALLOY: I agree.

COHEN: And so, look, I think looking into the big open questions here. It's just how far FinTech is going to be able to push into this space. And honestly, I think you can go both ways on this. And so, I think there's a lot of uncertainty here, so if you want to chart the future of FinTech, I would say that its path, and its disintermediation – much more certain within banking. But, perhaps the much bigger prize is going to be in these spaces of retirement and housing.

So, look, here's the big question we want to leave you with, it's: what do you trust a robot to do, right? If you don't trust a robot as your doctor, you don't trust the robot as your mechanic, will you trust a robot with your retirement savings? Right. With that money you worked so



hard for? Will you trust a robot to pick your house for you, or to make sure you got the right price? And if you won't, then does that define the limits of FinTech in this space? And if you will, how good does that robot have to be?

