FINFLUENCERS: EXPLORING THE RISE, RISK AND REGULATIONS.

Dr. Ajit Borde (Asst. Professor, Army Law College Pune)
Dr. Saching Borgave (Director, KES Pratibha Institute of Business Management)
Dr. Pallavi Chugh (Asst. Professor, KES Pratibha Institute of Business Management)

Abstract:

In the current era social media has emerged as an effecting influential marketing of tool. Social marketing is driven by social media influencers who create followers and promote various products and services. These are also known as 'Social Media Influencers' or 'Micro – Celebrities' and there are many such social media influencers promoting wide range of products and services.

The motives for individuals to become social media influencers can range from pure philanthropy, getting societal recognition, financial incentives or as being a part of career or profession.

Finfluencers are a subset of social media influencers who create contents related to financial aspects and give suggestions on finance and money management. These individuals want to educate their followers and enrich them on wide range of aspects of financial management. Finfluncers can have great impact and may pose serious risks to their follower investors.

Are these individual finfluencers really genuine and do they have the capability to be finfluencers? This research paper gains insights into various aspects associated with finfluncers through secondary research. The study understands that, as such there are no restriction on becoming finfluncers, the entry barriers into this domain are literally quite low. Since anyone can become so called finfluncers and may have diverse motives. There are chances that finfluencers may exploit their influence to gain for themselves at the expense of others. The study explores the rise of finfluncers the impact it may have and also compiles the key the existing regulations or initiatives across major economies on finfluencers. The study highlights that there is a need to regulate finfluncers to protect the investors from frauds or future crises. It is concluded that there is a need for uniform global regulations for finfluencers.

Key Words: Social Media, Micro – Celebrities, Social Media Influencers, Finfluencers,

Objectives:

- To understand the social media trends across globe and across generations.
- To explore the key characteristics of finfluencers.
- To understand the factors and reasons for rise and engagement of followers of finfluencers.
- To highlight the existing regulatory framework for finfluencers.

Introduction:

The digital era has created many avenues for people to easily connect with each other irrespective of physical boundaries. Multiplicity in networking through wide array of medias and ability to communicated in various formats with ease has enabled mushrooming of various types social influencers.

Social media influencers are individuals who characteristically have a greater online presence and create social media content based on niche topics that they share online audiences (Geyser 2023).

According to Investopedia, 'A social media influencer is someone who has established credibility in a

specific industry or niche and uses social media to promote themselves'.

Social media influencers characteristically have large followers base on social media as they are perceived to be experts in certain domains on which they create and share contents with the intention to influence the behaviours of their followers.

A class of social media influencers who create and share their contents specifically on matters related to money and investments have carved out a niche for themselves and have led to coinage of the term 'finfluencer.' Hence, a finfluencer is a social media influencer who specializes in sharing tips about investments, finances and money. The North American Securities Administration Association (NASAA) defines finfluencer as "A person who, by virtue of their popular or cultural status, has the capability to influence the financial decision-making process of others through promotions or recommendations on social media"

PricewaterhouseCoopers (PWC) explains finfluencers as individuals who use their popular status on public social media platforms to impact investment decisions and share personal experience of their use of traditional as well as crypto-assed focused financial services firms products, services and solutions.

Finfluencers provide their audience with advice which are mostly free but paid advice and/or promotions are also undertaken by many finfluencers. Finfluencers make money by sharing their financial knowledge and tips in several ways such as monetising through YouTube, sharing sponsored posts, selling digital products or courses, affiliate marketing, brand promotions or in other disguised methods as financial advisors.

Finfluencers can be broadly categorised into categories as investment professionals, hired finfluencers and unregulated finfluencers.

Since finfluencers may also earn by disguised sponsors who pay to create contents for brands or by companies to promote their products and services. And they influence the purchase and investment decisions of individuals it becomes important to explore and highlight the insights into the topic.

Rise of finfluncers:

Social media has been growing consistently, (Dixon S.J 2024) Statista report estimates that social media usage is one of the most popular online activities by 2024 approx. five billion users are using social media and it is expected to increase to more than six billion users by 2028.

Northern Europe has the highest percentage of population using social media amounting to 80.4 %, followed by Western Europe 78.2 %. America has 70.8 % social media users and Southern Asia the percentage of social media users stands around 32.9 % the global average being around 62.6 %.

Other studies also point towards similar data figures and trends pattern. A report by smart insights indicates that social media users have grown at 8% YOY in Jan 2024 and currently there are approx. 5.07 billion individuals. The use social media amounting to 62.6 % of total population and 259 million users were added in last one year till 2024. Also, the average daily time spent by users is recorded around 2 hours 20 minutes. There has been a significant development of telecommunications technology majority of regions have implemented 5G telecoms services and others have already shifted from 3G to 4G telecommunications services. Increase in access to smart phones and decrease in the price of internet data has also contributed significantly to the proliferation of social media.

According to reports of Kepios Analysis, in April 2024 Facebook stood at number 1 position with around 3.06 billion active users followed by Youtube 2.05 billion users, then followed by Instagram

and WhatsApp having around 2 billion users each.

According to a report by Statista, the global market size of influencers has grown about 8 times from $1.7 billion in 2016 to nearly $14 billion in 2021, similarly the report also states that the global market size is expected to reach $ 24 billion by 2024.

The influencers talk on variety of topics ranging from fashion, gadgets, health, beauty to finance. In case of India the influencer marketing industry was valued around 12 billion rupees in 2022 and is expected to become 28 billion rupees by 2026.

During the Covid -19 lock down when every individual was forced to stay at home, social media emerged as one of the communicating means. During this period people were looking for ideas to earn extra income while staying at home. During the lockdown period finfluncers were the ones who started giving advice on finance and investments.

According to Bloomberg News report the downloads of investment apps rose by 20% in 2021 from the previous year and actual time spent on these apps jumped by 90% in comparison to year 2020.

The reasons for popularity of Finfluencers is due to their ability to break down complex figures into simple easy to understandable formats through their videos and podcasts on stock markets and other aspects of finance. Also the finfluencers tend to relate the advice and products to personal stories and experiences which their followers can quickly relate to and easily understand.

Because of their growing popularity and influence these individuals have emerged as an influencer between the consumers and financial institutions. These individuals provide knowledge and guidance related to general investments as well give their recommendations on financial and investments products.

According to Bloombergs, mostly Millennials and Gen Z-ers are use social media as a source of information for getting advice on investing rather than depending on the traditional media and sources such as brokers or investment advisors.

Review of Literature:

Chartered Financial Analyst (CFA) institute year 2024 research article highlights how social media platforms like YouTube, TikTok, and Instagram, are playing a role in the influence of young generation investors and how they use the contents posted by finfluencers on social media platforms for collecting information and using it for investment decisions.

Bollen et al. (2011) in their research have studied the relations between posts on Twitter related to companies and stock price, they observed that sentiments in tweets can guide the price of company stock.

Al Atoom, Alafi, and Al-Fedawi (2021) study highlights that investors use the social media to seek particular type of informations like opinions and comments of other investors and stock brokers about concerned stock, they also look for confidence of others and brokers opinion on particular investments.

Blankespoor et.al. (2014) research states that social media has played pivotal role in democratisation of financial markets because the information shared on Twitter can lead to more widespread diffusion of information.

Lin et.al. (2022) research highlights that in U.S.A about 60 % investors between the age of 18 – 35 years rely on social media for information related to finance, also youtube is the most prevalent media

source among this segment for information related to finance.

FINRA Investor Education Foundation (2023) study highlights that in case of Gen-Z investors majority of them use Youtube approx. 60 % followed by google searches, followed by Instagram and TikTok for seeking information on finance and investments. The study also points out that Gen-Z relies on multiple media sources cross referencing these and while making investments decisions they rely more on family and friends advise rather than merely social medias.

Nemeczek and Weiss (2023) study on students indicates that these individuals trust their own self for investment decisions and don't have much trust on the advices given by financial experts and believe that the advises given tend to be of poor quality.

Ramachandran (2022) study on Investment Gamification and Implications for Capital Markets, highlights that positing tips and trades on social media can act as "commitment device" to hold the investments in spite of the instrument performing badly just to show their commitment and convictions. The study further indicates that finfluencers are not regulated, these individuals can make bogus recommendations and there can be conflict of interests while giving advise on finance and investments.

Pelster and Hofmann (2018) study showed that the individuals who had large number of followers often gave sell decisions based on social pressure instead of based upon fundamentals factors. The reason behind such behaviour could be the fear of losing followers and to manage self-image.

The Research Methodology:

In context to the insights gained from the literature review there are certain gaps highlighted in studies, the research attempts to fill these gaps by comprehending the information from various sources and studies. This research paper explores about the rise of social media users and finfluencers, existing framework for finfluencers, the factors and characteristics of contents of finfluencers and the extent of engagement across various generations with finfluencers. The study is based upon secondary source and compilation of existing information available through different sources.

Discussions & Findings:

The growth of social media users has been consistent across the world, with an average growth rate of around 8 % the expectation of having more than 6 billion users by 2028 may reach soon.

In a study by Media Matrix it is observed that differences exist towards usage of various social media platforms in across generations. Table: 1 of Media Matrix Statistics shows the percent users of various social medias across various generation. 70% of Gen Z users use ByteDance followed by 67% users of Instagram and 58 % Reditt. In case of Millennials the study found 84 % percentage using Facebook, followed by Instagram 72%. And in case of Gen X majority of users use Facebook 93 % followed by Twitter 50% and Instagram 49%.

Table: 1. Percentage of Social Media Reach According to Generations

Sr. No.	Generation	Social Media Type	Percentage User
1		ByteDance	70 %
2	Gen Z (Age 18 – 24)	Instagram	67 %
3		Reditt	58 %
4		Facebook	84 %

5	Millennials (Age 25 – 34)	Instagram	72 %
6		ByteDance	52 %
7	Gen X (Age +35)	Facebook	93 %
8		Twitter	50 %
9		Instagram	49 %

Source: Media Matrix Multimedia Platform, March 2023.

Similar findings are also observed in case of Instant Messaging Apps as depicted in Table: 2. Where it is observed that majority of Gen Z are using Discord 41% which is more than WhatsApp users 35 %. And incase of Millennials and Gen X, WhatsApp users form a major share 60 % and 48 % respectively followed by Messenger users about 41 % and 34 % respectively.

Table: 2. Generation wise Percentage share of Instant Messaging Apps users.

Sr. No.	Generation	Social Media Type	Percentage User
1	Gen Z (Age 18 – 24)	Discord	41 %
2		WhatsApp	35 %
3		Messenger	24 %
4	Millennials (Age 25 – 34)	WhatsApp	60 %
5		Messenger	41 %
6		Google Message	18 %
7	Gen X (Age +35)	WhatsApp	48 %
8		Messenger	34 %
9		Google Message	18 %

Source: Media Matrix Multimedia Platform, March 2023.

Similarly, the North American Securities Administrators Association states that most Millennials and Gen Z-ers are using social media sources for information about investing rather than relying on more traditional sources of investing information such as brokerage or investment advisory firms.

Typically, Finfluencers share tips related to money management and stock markets through various social media platforms, blogs or their own websites.

Morning Consult study in USA highlights that Gen Z and millennial investors share of social media for investment advice is as follows: Facebook—33%, Instagram—32%, Reddit—29%, X platform (formerly Twitter)—27%.

In a study by The Office of Investors it was found that around 22 % of Canadians said that they use social media, forums, or 'finfluencers' for financial information and advice.

Tim Ranzetta (2023) report states that around 34 % of Gen Z learn about personal finance from social media. Social media has a much greater ability to influence retail investors pertaining to the fact the distribution of information on social media is much faster than compared to traditional media. And also the entry barriers of social media are much lower and cost of distribution is virtually free.

Social media may have both beneficial and harmful effects on investors' ability to ascertain information. The social media may not only increase risks for individual investors but also increase risks across the entire financial system.

On the other hand, social media can play a positive role in reducing exposure to risk. In this context,

NEOTAS a risk assessment firm state that information shared on social media such as consumer opinion, management reviews, employee feedback, and consumer reputation etc. can help users assess companies social and governance records.

Gen Z are mostly engaging with Finfluencers, the probable reasons for it being, Gen Z's are facing a knowledge gap regarding financial knowledge. The contents produced by Finfluencers are simple, interesting and moreover free of cost, which they post on social medias. Among all generations, Gen Z is mostly active on social media, they are adaptive and have propensity to take risk, hence their adoption to the content of Finfluencers is extensive. Further, this generation doesn't necessarily believe that to gain financial knowledge formal education is required.

The US Federal Reserve Board's Financial Stability Report 2021 states that social media is not only shifting the dynamics of investing, but as well it is providing new modes for retail investors to connect and organize themselves. The report states that social media has the potential to destabilise financial markets, due to the fact that the existing risk management systems may not have factored for the increased volatility that can result from investor behavior influenced by social media.

Finfluencers are not just solely motivated to seek out and disseminate fundamental value information, but rather they are motivated to maximise their popularity and followers base and grow their personal brand. Behaviours similar to this has been highlighted by Pelster and Hofmann (2018) in their study cannot be ruled out in case of finfluencers, i.e. finfluencers may engage in giving out poor financial advice just to keep hold of their follower base popularity and social image, instead of using sound analysis, logic and fundamentals.

The contents posted by finfluencers may be subjected to hidden marketing, poor quality of information, misinformation or scams. Many of these risks are due to over estimation of competency of finfluencers, inadequate disclosures and lack of transparency. Besides this finfluencers may engage in scams and may trick investors to take bad financial decisions. Some of the schemes are like, Pump-and-Dump Schemes where finfluencers may promote bad sock or crypto to inflate its price and getting rid of their holdings at inflated prices. Finfluencers may make false promises of high returns on investments or promote get rich quick schemes, courses or products. They may also promote financial products and services, subscriptions etc. without disclosing such affiliations and earning commissions from each followers' who sign-ups.

Hence, there is a need to have proper regulations, disclosures and oversight mechanism to monitor and regulated the activities of finfluencers in order to protect the investors.

Regulators of various nations around the globe have started taking initiatives to catch-up in publishing appropriate standards for finfluencers.

Table: 3 Key initiatives taken by major countries regulators to educate or protect the investors regarding finfluencers.

Sr. No.	Country	Regulator	Key Guidelines/ Regulations
1.	Netherlands	Dutch Authority for the Financial Markets (AFM)	• Rules on financial recommendations and promotions • Guidelines of compliance made referral fees are not permitted

2.	Australia	Australian Securities and Investments Commission (ASIC)	• Guidance to finfluencers on what types of statements are acceptable and unacceptable when discussing services and promoting products
3.	United States of America USA	US Securities and Exchange Commission (US SEC) North American Securities Administrators Association (NASAA)	• Informed Investor Advisory: Finfluencers • SEC's Howey Trade program on Investor • SEC awareness campaigns and Investor Education Program & Materials
4.	India	Securities and Exchange Board of India (SEBI)	• Brokers and mutual funds are prohibited from using the services of unregulated financial influencers for marketing and advertising campaigns. • Financial influencers engaged in investor education will be exempt from these restrictions.
5.	United Kingdom	Financial Conduct Authority (FCA)	• Finfluencers need to take FCA authorisation for promoting financial products
			• Finalised guidance on financial promotions on social media (2024)
6.	European Union	European Securities and Markets Authority (ESMA)	• Tools on financial literacy and online training for young financial influencers. • Unfair Commercial Practises Directive (UCPD) • Finfluencers must declare sponsored content to their audiences • EU's Market Abuse Regulation, MiFID II and Commission Delegated Regulation
7.	Canada	Canadian Investment Regulatory Organization (CIRO)	• Corporation Investment Dealer and Partially Consolidated Rules (2023) • Provisions of Competition Act: disclose all material connections you have with the business, product or service you are promoting.

Source: Compiled from various sources.

Element of simplicity and entertainment are the key ingredients for their popularity these Finfluencers may or may not have professional certifications or backgrounds in money management. Although professional certifications and backgrounds plays a major role in creation of their image. Substantial followers do consider following a finfluencer by consider their qualifications and background. The understanding about financial tips shared by finfluencers cannot be followed blindly and is not a substitute for advice from a professional financial advisor is more prevalent in mature investors than novice investors.

Regulatory agencies should work to ensure finfluencers understand what is required of them and make relevant disclosures in their content. Regulators across different markets and social media platforms need design uniform global rules and regulations for finfluencers as this will help in reducing the

complexity and provide clarity to such influencers who have global reach through social media. Finfluencers need to have prescribed qualifications and experience, they must follow a code of conduct, provide adequate disclosures on conflicts of interests, charge a reasonable fee, and be accountable under the regulations. Registered Investment Adviser (RIA) licence for finfluencers or their firms must be made mandatory.

Conclusion:

Social media due to its certain inherent characteristics is one of the prime form of media used by investors to seek information. It can have profound impact on individual investors as this is one of the most easily accessible. Social media also is susceptible to make investors show the herding behaviour increasing their risk behaviours based on sentiments and influence rather than fundamental of investments. Finfluencers can be a useful source of learning on finance and investments, but it's important to consider the source and one's own prudence while investing. Finfluencers can have a profound influence on individuals' financial decisions. Since even the registered professional experts cannot provide guarantee. Like registered experts specifically note that their tips should not be considered a substitute for professional financial advice similar note should be made mandatory for Finfluencers.

References:

i. Tanushree Basuroy, Value of influencer marketing industry in India 2021-2026, May 8, 2024 www.statista.com

ii. Serena Espeute & Rhodri G. Preece, The Finfluencer Appeal: Investing in the Age of Social Media, INDUSTRY FUTURE, CFA Institute Research and Policy Center. 25 January 2024, doi.org/10.56227/24.1.1

iii. Morning Consult. "Here's Where the Youngest Generation of Investors Is Getting Their Financial Advice, https://pro.morningconsult.com/analysis/tiktok-is-flush-with-financial-advice-but-social-media-hasnt-replaced-professional-sources-for-guidance-yet

iv. Al Atoom, A. S., K. K. Alafi, and M. M. Al-Fedawi. 2021. "The Effect of Social Media on Making Investment Decisions for Investors in Amman Financial Market."

v. International Journal of Innovation, Creativity and Change 15 (6): 934–60.

vi. Bollen, J., H. Mao, and X. Zeng. 2011. "Twitter Mood Predicts the Stock Market." Journal of Computational Science 2 (1): 1–8. doi:10.1016/j.jocs.2010.12.007.

vii. Dixon, S. J. 2023. "Number of Global Social Network Users 2017–2027." Statista (29 August). https://www.statista.com/statistics/278414/number-of-worldwide-social-network-users/

viii. Geyser, W. 2023. "The State of Influencer Marketing 2023: Benchmark Report." Influencer Marketing Hub (30 October). https://influencermarketinghub.com/influencer-marketing-benchmark-report/

ix. Blankespoor, E., G. S. Miller, and H. D. White. 2014. "The Role of Dissemination in Market Liquidity: Evidence from Firms' Use of Twitter." The Accounting Review 89 (1): 79–112. doi:10.2308/accr-50576

x. Lin, J. T., C. Bumcrot, G. Mottola, O. Valdes, and Gerri Walsh. 2022. "Investors in the United States: The Changing Landscape." FINRA Investor Education Foundation (December). www.finrafoundation.org/sites/finrafoundation/files/NFCS-Investor-Report-Changing-Landscape.pdf.

xi. Tim Ranzetta, Next Gen Personal Finance, Practical Applications for Financial Literacy (SEC IAC panel presentation on December 7, 2023), at page 8 (citing Go Banking Rates Gen Z Survey), available at https://www.sec.gov/files/spotlight/iac/sec-iac-presentation-ranzetta-

120723.pdf.

xii.   FINRA Investor Education Foundation and CFA Institute. 2023. "Gen Z and Investing: Social Media, Crypto, FOMO, and Family" (May). https://rpc.cfainstitute.org/-/media/documents/article/industry-re-search/Gen_Z_and_Investing.pdf.

xiii. Ramachandran, S. 2022. "Fun and Games: Investment Gamification and Implications for Capital Markets." CFA Institute (16 November). www.

xiv.   cfainstitute.org/en/research/industry-research/investment-gamification-implications.

xv.   Pelster, M., and A. Hofmann. 2018. "About the Fear of Reputational Loss: Social Trading and the Disposition Effect." Journal of Banking & Finance 94 (1): 75–88. doi:10.1016/j.jbankfin.2018.07.003.

xvi.   https://www.nasaa.org/64940/informed-investor-advisory-finfluencers/

xvii. https://legal.pwc.de/en/news/articles/eu-reiterates-rules-to-regulating-finfluencers

xviii. https://www.investopedia.com/financial-influencers-to-know-5217608

xix.   https://www.nasaa.org/64940/informed-investor-advisory-finfluencers/

xx.   https://www.smartinsights.com/social-media-marketing/social-media-strategy/new-global-social-media-research/#:~:text=5.07%20billion%20people%20around%20the,social%20media%20is%202h%2020m.

xxi.   https://www.businesstoday.in/interactive/immersive/rise-of-the-finfluencers#:~:text=According%20to%20a%20report%20by,to%20nearly%20%2414%20billion%20in