AI and the Market for Expert Services: Evidence from Financial Advisers

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Motivation

AI now does tasks that once required a trained professional, so many expect it to displace experts

- **Experts in general**
  "… that will become free, commonplace—great medical advice, great tutoring"

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⇒ However, this view misses that clients must **trust** the expert (Arrow, 1963)

This Paper

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1. **Setting**: U.S. financial advisory sector
   - **Why**: expert advice is usually private, but financial advice leaves a regulatory record
   - **Data**: customer disputes (advice + client's situation) and Form ADV brochures (AI use)
2. Model: households and advisers both use AI
3. Calibration: the model fitted to the advisory industry in 2021, before ChatGPT

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   - **Goal**: show which quantities decide whether AI displaces experts
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1. Setting: U.S. financial advisory sector
2. Model: households and advisers both use AI
3. **Calibration**: the model fitted to the advisory industry in 2021, before ChatGPT
   - **Why**: the model gives the direction of each force, but not its size
   - **Goal**: use the measured quantities to size AI's effects on fees, sector size, and winners

Objective: show which measurable quantities decide AI's effect on fees, sector size, and winners

Related Literature

- **Financial Advisers and Technology in Household Finance**

  Mullainathan-Noeth-Schoar 2012; Gennaioli-Shleifer-Vishny 2015; Foerster et al. 2017; Egan-Matvos-Seru 2019; D'Acunto-Prabhala-Rossi 2019; Chalmers-Reuter 2020; Lopez-Lira-Tang 2023; Reher-Sokolinski 2024; Greig et al. 2025; Choukhmane et al. 2026; Mainardi-Oh 2026

  ⇒ **Study how households' access to AI changes the market for human advice**

- **Economics of Expert Services**

  Arrow 1963; Darby-Karni 1973; Wolinsky 1993; Pesendorfer-Wolinsky 2003; Dulleck-Kerschbamer 2006

  ⇒ **Model AI as a way for clients to verify experts, and measure its use on both sides**

- **Automation and AI**

  Autor-Levy-Murnane 2003; Acemoglu-Autor 2011; Acemoglu-Restrepo 2019; Brynjolfsson-Li-Raymond 2023; Eisfeldt-Schubert-Zhang 2023; Autor-Thompson 2025; Garicano 2026; Imas 2026

  ⇒ **Show that clients' use of AI can complement experts by making advice less risky**

Roadmap

1. **A Model of Expert Services**

2. **Evidence on AI and Financial Advice**

3. **Quantitative Model**

4. **Conclusion**

A Model of Expert Services

Setup: Agents, Choices, and Timing

Financial advice: a household and its adviser

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- Chooses a source r of advice: the adviser (E) or investing with AI (0)
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- Consistent with advisers setting fee schedules before new clients join

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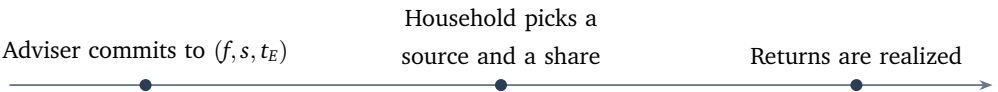
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AI capability $I \geq 0$: common to both parties and taken as given



Setup: The Household

The household chooses one risky source and how much to invest

$$U_r^* = \max_{0 \le m_r \le 1} \left\{ m_r [b_r(I) - f_r] - \frac{\alpha}{2} m_r^2 \frac{\sigma_r^2(I)}{1 + t_r} \right\}, \qquad r \in \{E, 0\}$$

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- Hire the adviser if $U_E^* \ge U_0^*$, including at indifference

Setup: The Adviser

The adviser chooses (f, s, t_E) subject to household participation

$$\max_{f,s,t_E \geq 0} \pi(f, s, t_E; I) \quad \text{subject to} \quad U_E^* \geq U_0^*$$

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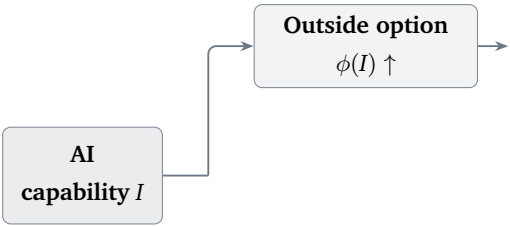
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- The adviser operates only if its best contract earns positive profit

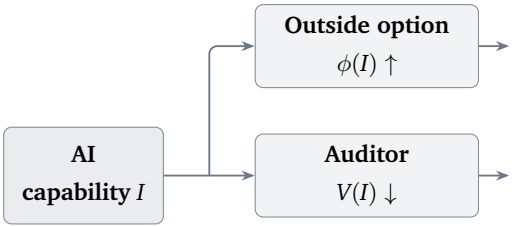
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Substitute: better alternative, lower acceptable fee

- Household's own return: $b_0(I) = \bar{b} + \phi(I)$

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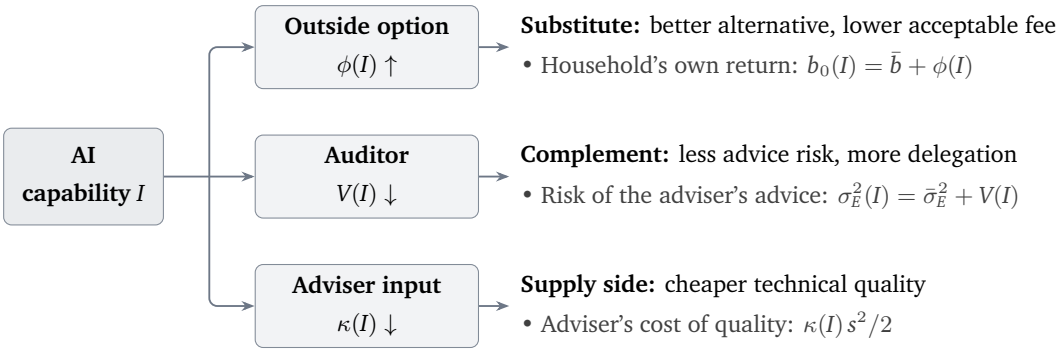
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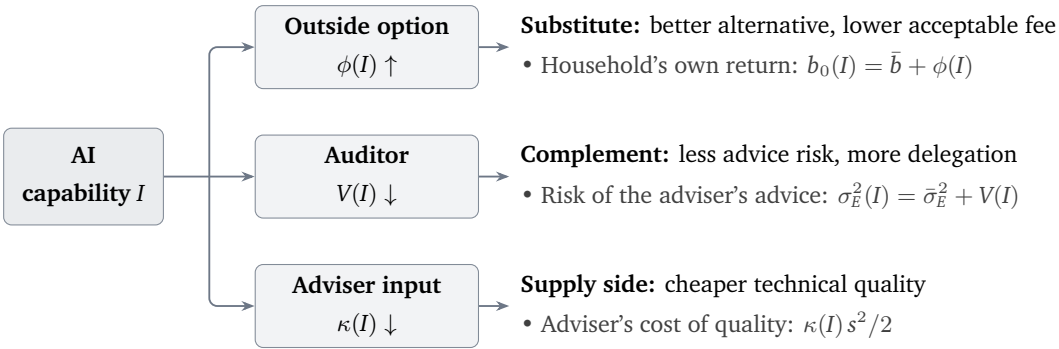
Complement: less advice risk, more delegation

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AI capability I
Outside option $\phi(I) \uparrow$
Auditor $V(I) \downarrow$
Adviser input $\kappa(I) \downarrow$
Substitute: better alternative, lower acceptable fee
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Complement: less advice risk, more delegation
• Risk of the adviser's advice: $\sigma_E^2(I) = \bar{\sigma}_E^2 + V(I)$
Supply side: cheaper technical quality
• Adviser's cost of quality: $\kappa(I)\, s^2/2$

Setup: AI



- Not modeled: if AI also detects shirking, $V(I) \downarrow$ and $b_E \uparrow$
  - ∗ Predictions go through since the model delivers $V(I) \downarrow$ via auditing and $b_E \uparrow$ via $\kappa(I) \downarrow$

Equilibrium

Demand: for interior choices, the household invests the mean-variance share

$$m_r = \frac{b_r(I) - f_r}{B_r}, \quad U_r^* = \frac{[b_r(I) - f_r]^2}{2B_r}, \quad B_r = \frac{\alpha \sigma_r^2(I)}{1 + t_r}$$

Risk, net of trust

and hires the adviser when

$$U_E^* \geq U_0^* \iff b_E - f \geq \xi b_0(I), \quad \xi = \sqrt{\frac{B_E}{B_0}}$$

Adviser's risk relative to investing with AI

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Adviser's risk relative to investing with AI

Supply: the adviser charges the lower of the monopoly and participation fees

$$f^* = \min \left\{ \underbrace{\frac{b_E + c}{2}}_{\text{monopoly fee}}, \underbrace{b_E - \xi b_0(I)}_{\text{participation fee}} \right\}$$

and when participation binds, the household delegates $m_E^* = m_0^*/\xi$

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1. Delegation rises whether or not the household's participation constraint binds

Binds: $m_E^* = \dfrac{m_0}{\xi} = \dfrac{b_0}{\sqrt{B_0 B_E}}$ better alternative: $b_0 \uparrow$, $B_0 \downarrow$; **auditing, trust**: $B_E \downarrow$

Slack: $m_E^* = \dfrac{b_E - c}{2B_E}$ quality: $b_E \uparrow$; **auditing, trust**: $B_E \downarrow$

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2. When participation binds, the effect on the fee is ambiguous

$$\frac{df^*}{dI} = \underbrace{\text{investing with AI}}_{<0} + \underbrace{\text{quality}}_{>0} + \underbrace{\text{auditing}}_{>0} + \underbrace{\text{trust}}_{>0}$$

Evidence on AI and Financial Advice

Demand Side: AI for Households

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3. **Measures**
   - How does AI rate the advice households received? (audit)
   - How well does AI advise from the client's situation alone? (outside option)

Demand Side: An Example Dispute Record

Raw record from BrokerCheck

"[REDACTED] alleged that Registered Representative, [ADVISER], failed to explain the terms of two Guaranteed Life Income Annuities (GLIAs) purchased from [FIRM] in December 2017. [REDACTED] alleged that she would have not agreed to the annuities purchase as she was at retirement age and needed liquidity for day to day expenses. … Product Type: Other: Equity-Indexed Annuity Alleged Damages: $25,281.00 … Broker Statement My first appointment with [REDACTED] was November 30th 2017. …"

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- We use **three AI roles**, with models from different families
  - **AI reconstructor** keeps only what was known **when the advice was given**
  - **AI adviser** writes its own advice from the client's situation alone
  - **AI judge** scores both, blind to the source and the dispute

Demand Side: Reconstruct, Mask, and Judge

Client's situation (first person; names, amounts, and outcome masked)

> "I am at retirement age and need liquidity for day-to-day expenses. … [I] do not understand how my money can go up and down, and want to eliminate as much market risk as I can."

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Human advice (ex-post labels removed)

> "The adviser recommends that I purchase two equity-indexed annuities in December 2017."

AI judge's score
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AI advice (AI adviser, from the client's situation alone)

"… roll retirement assets into an IRA holding Treasury bills and FDIC-insured CDs."

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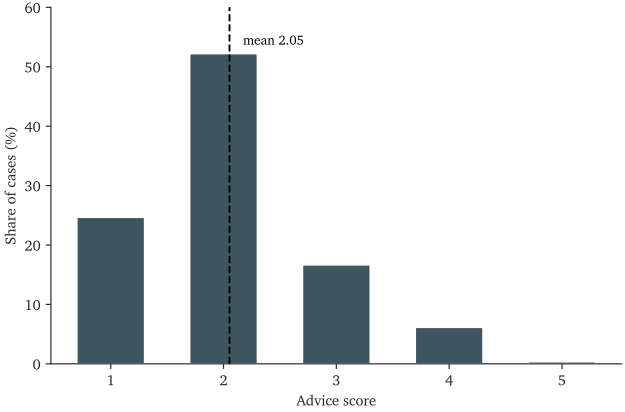
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AI judge's reason (excerpt)

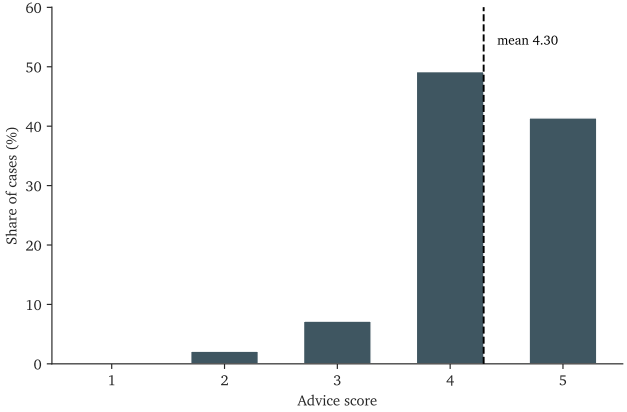
"… two overriding priorities: eliminating market risk and maintaining liquidity for day-to-day expenses. … equity-indexed annuities … conflicts with both priorities"

AI as Auditor: Disputed Advice



Takeaway: Using facts available at the time, AI rates 77% of disputed advice 2 or below

AI as Outside Option: AI's Own Advice



Takeaway: From the same client facts, the judge prefers AI's advice in 95% of cases

Supply Side: AI for Advisers

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Assumption: AI lowers the cost of technical work, but not the cost of building trust

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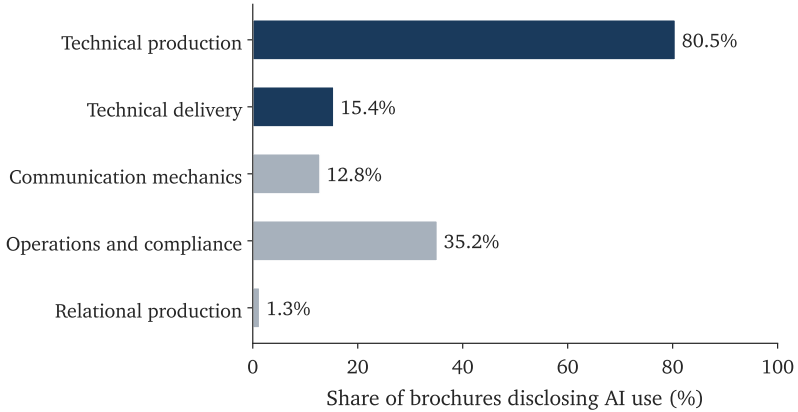
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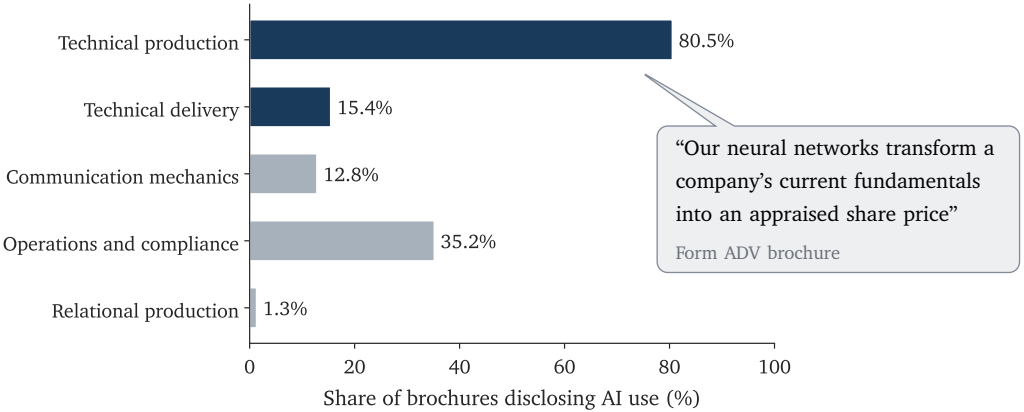
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3. **Measures**
   - **Task level**: which tasks do advisers disclose using AI for? (technical vs. relational)
   - **Adviser level**: do advisers to households disclose AI use less often?

AI and Technical Work: Task Level



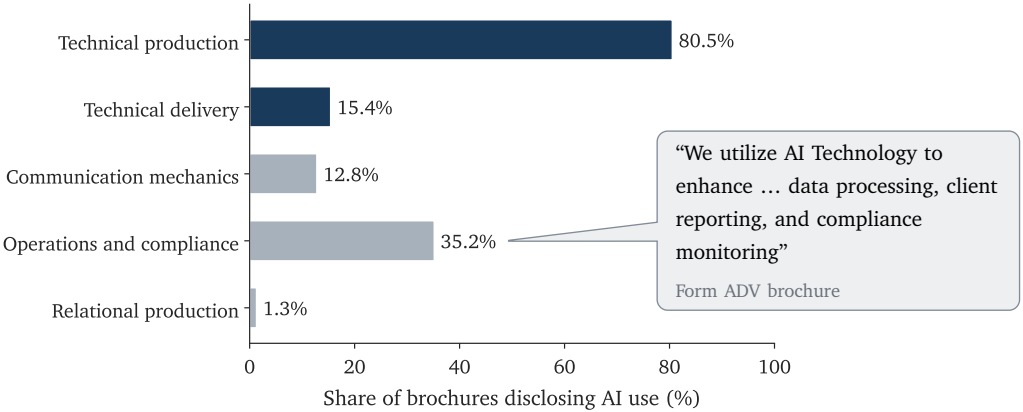
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AI and Technical Work: Task Level



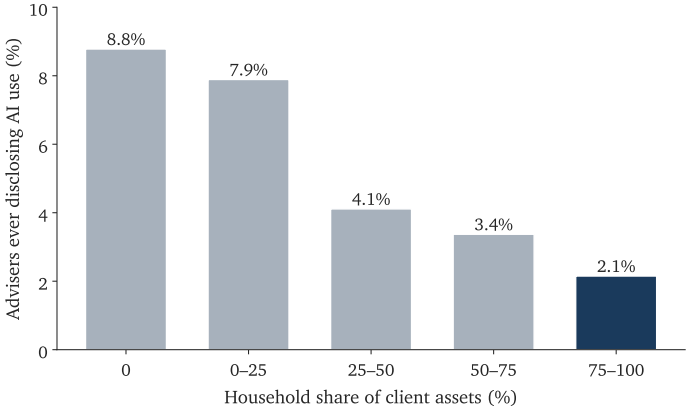
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AI and Technical Work: Task Level



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AI and Technical Work: Adviser Level

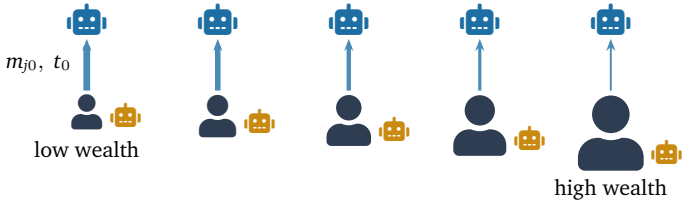


Takeaway: Advisers whose business is more technical disclose AI use more often

Quantitative Model

Quantitative Model: Setup

Households



Invest alone

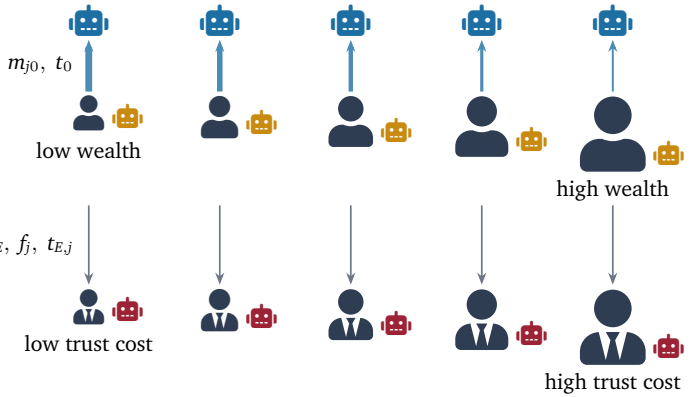
$\phi_i(I) = \bar{\phi}_i(1 - e^{-I})$

Audit

$V(I) = ve^{-I}$

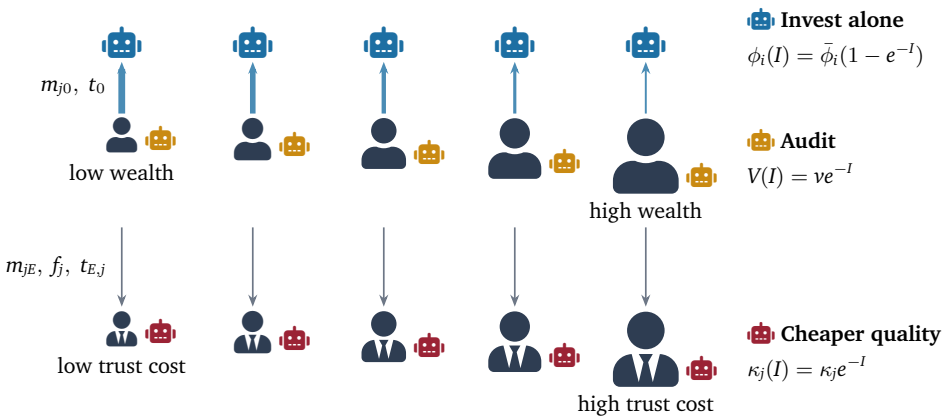
Calibration

Quantitative Model: Setup



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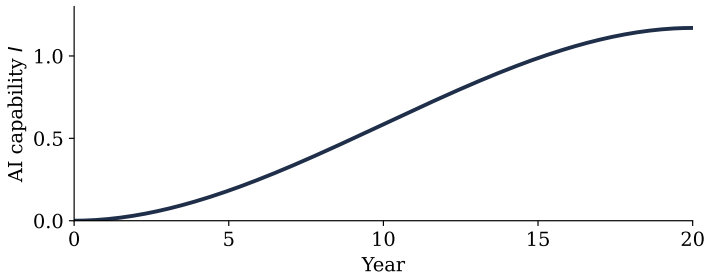
$$\alpha_i = \alpha\left(\frac{W_i}{W_5}\right)^{\zeta_\alpha}, \quad \theta_j = \theta\left(\frac{W_j}{W_5}\right)^{\zeta_\theta}, \quad \kappa_j = \kappa\left(\frac{W_j}{W_5}\right)^{\zeta_\kappa}, \quad \bar{\phi}_i = \bar{\phi}_1 - \frac{i-1}{4}\left(\bar{\phi}_1 - \bar{\phi}_5\right)$$

▸ Calibration

The Scenario: AI Capability Rises Over Twenty Years

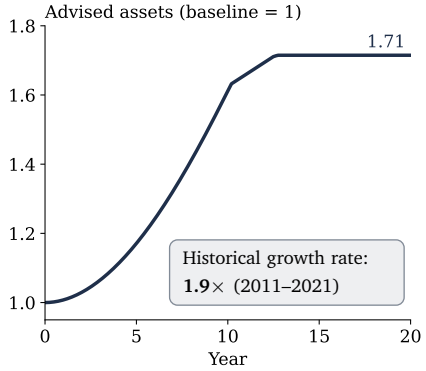
Baseline: AI improves until the least wealthy group's own return is 1 pp higher

$$I(\tau) = I_g\,(3x^2 - 2x^3), \qquad x = \frac{\tau}{20}, \qquad \phi_1(I_g) = 1 \text{ pp}$$

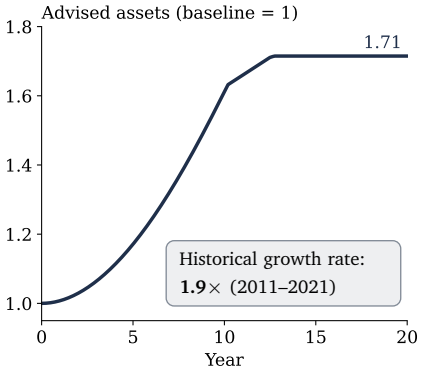


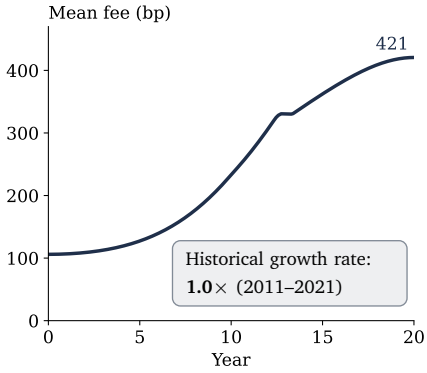
- The paper also studies an **extreme scenario** with tripled maximum own gains

Sector Growth and Fees



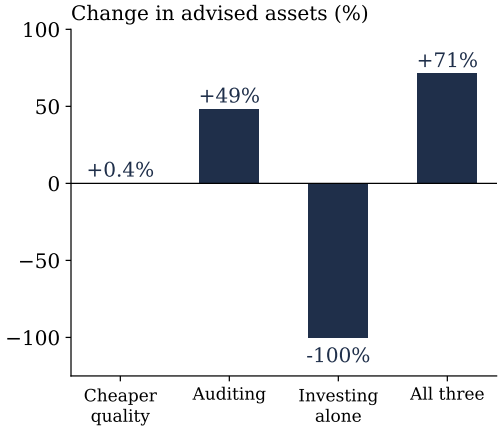
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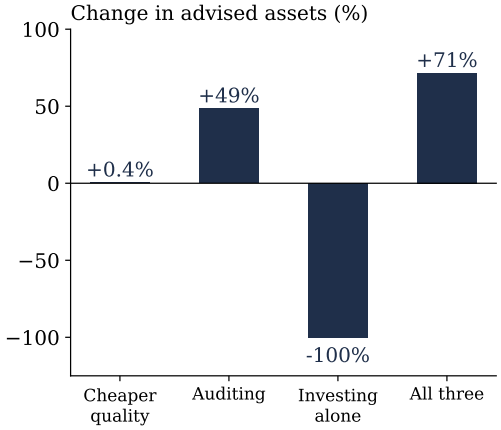


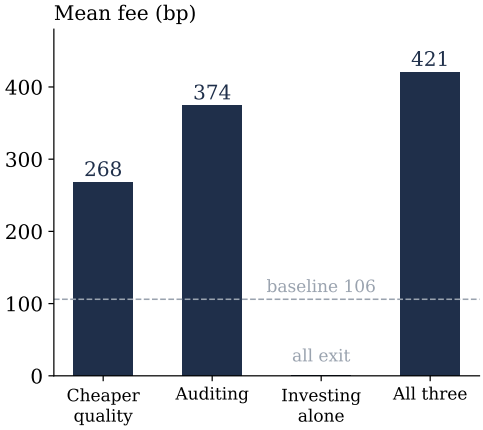
Takeaway: AI raises both advised assets and fees, and all five advisers stay active

Sector Growth and Fees: By AI Channel



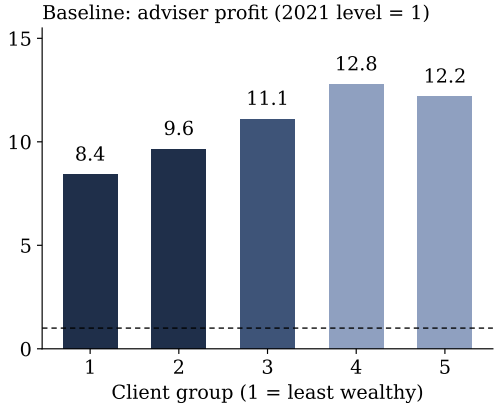
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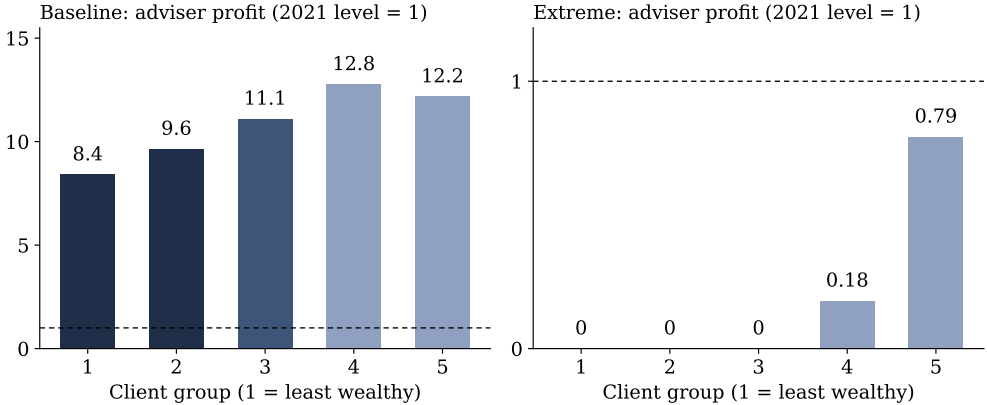


Takeaway: If AI only improved own returns, advisers would exit, but auditing keeps them in

Which Advisers Win and Which Lose?

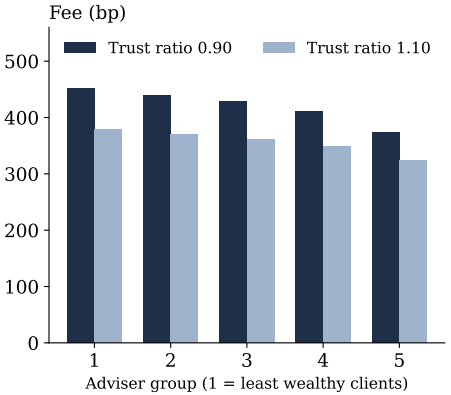


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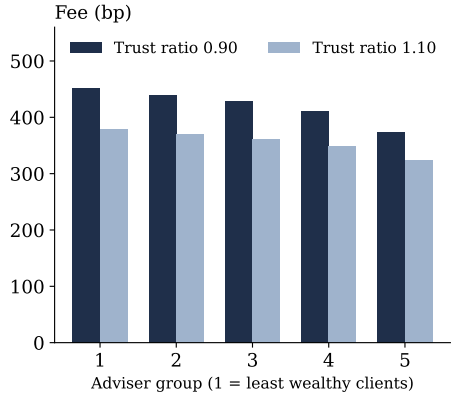


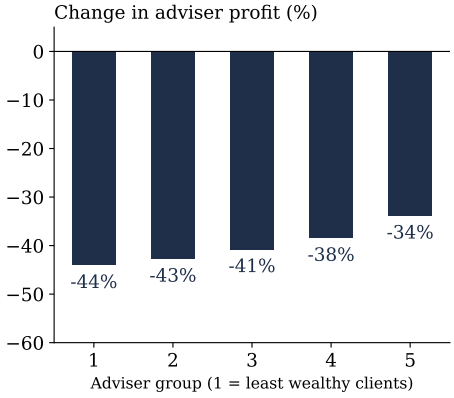
Takeaway: Relative to 2021, profit is higher for advisers serving wealthier clients

Fees and Profits: When Households Trust AI More



Fees and Profits: When Households Trust AI More





Takeaway: Trust in AI hits advisers to the least wealthy hardest, but none exit

Conclusion

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1. **Model:** AI **raises the share households delegate**, even when it raises the fee
2. **Evidence:** AI can **audit and replace** advice; advisers use it mostly for technical work
3. **Calibration:** Advised assets **rise about 70%** when own returns rise 1 pp
   - Households gain from the better alternative; advisers from production and auditing
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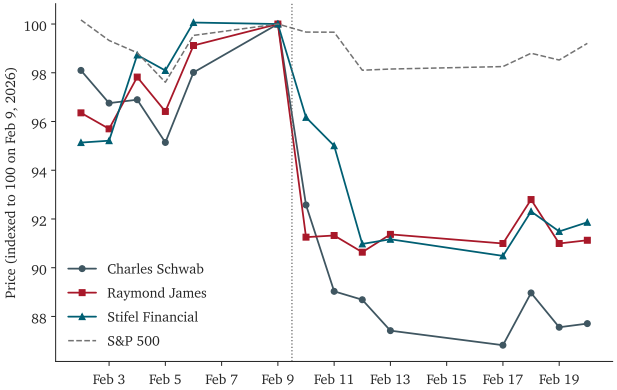
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Implications

- Whether AI displaces experts depends on quantities we can measure
- The mechanism extends to law and medicine, where clients also rely on advice

Thank you!

Stock-market reaction to the launch of an AI adviser



Advisory stocks fell nearly 10% on the Hazel announcement

Back to Motivation

Calibration: Households

Informs	Target or input	Value	Source
$\bar{b}$, $\bar{\sigma}$	Market excess return, volatility	7.33%, 17.7%	U.S. stocks, 1963–2022
α	Risky share, wealthiest group	62.3%	SCF 2022
ζ_α	Mean risky share	51.5%	SCF 2022
t_0	**Trust in AI relative to advisers**	**0.90**	FINRA Foundation (2024)

Trust in AI: FINRA Foundation (2024)

- The same financial statements are randomly attributed to AI or to a professional
- Respondents rate how much they trust each statement
- Model counterpart: $(1 + t_0)/(1 + \bar{t}_E) = 0.90$, with $\bar{t}_E$ the mean adviser trust

Back to Setup

Calibration: Advisers

Informs	Target or input	Value	Source
c	Servicing cost per dollar	21.5 bp	Industry benchmarks
κ	Fee, wealthiest group	84 bp	Form ADV brochures
ζ_κ	Mean fee	106 bp	Form ADV brochures
θ	Mean operating margin	28%	Schwab RIA Benchmarking
ζ_θ	**Relationship payroll per \$, top / mean**	**0.21**	Revelio, Form ADV

Relationship payroll: Revelio Labs and Form ADV

- Wage bill of relationship and client-service staff per dollar of household assets
- Falls from about 16 bp at the smallest accounts to about 2 bp at the largest
- Model counterpart: trust spending per dollar delegated; top / mean $= 0.21$ informs ζ_θ

Back to Setup

Calibration: AI

Informs	Target or input	Value	Source
ν	**Subjective minus historical variance**	**0.11**	Dominitz and Manski (2011)
$\bar{\phi}_1$	**Fund fees and mistimed flows**	**1.45%**	Dichev (2007); Koijen et al. (2026)
η, I_b	Speed of AI; capability in 2021	1, 0	Normalization

Variance AI can remove (ν): Dominitz and Manski (2011)

- Households expect stock volatility of about 39%, against 20% in the data
- AI can remove the gap, $\nu = 0.39^2 - 0.20^2 \approx 0.11$

Gain for the least wealthy ($\bar{\phi}_1$): Dichev (2007); Koijen, Mainardi, and Oh (2026)

- 15 bp from avoiding expensive funds and 130 bp from avoiding mistimed flows
- The wealthiest group gains 0.50%, with linear steps in between

Back to Setup