Behind the Screens: The Business of Financial Influencers

Discipline: Commerce

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Received: 22.04.2025 | Revised Submission: 21.05.2025 | Accepted: 29.05.2025 | Available Online: 05.06.2025

Abstract

Financial Influencers (Finfluencers) have brought changes to the investment arena by sharing financial knowledge with people quickly through social media. To study them, this work uses methods from different fields to approach their business models, psychological outcomes, rules and ethical concerns. Influencers help spread global financial knowledge, but their drives to make money may occasionally cause them to act incorrectly. Using algorithms, small online groups and no formal checks they let wrong facts to be distributed. Finally, the paper suggests methods for industry platforms, regulators and investors to help steer digital finance toward responsible development.

1. Introduction

Thanks to modern technology, "Finfluencers" are now very influential in guiding people to invest. Many people get financial tips and strategies straight from people on YouTube, TikTok, Instagram and X (the former Twitter). Despite how democratized fundraising has become, making it easier for people to learn about, there are also serious consequences: false news, influence on equity and gaps in government supervision. This study looks at how influencers have two roles, as instructors and promoters and how their financial interests relate to patient trust, the acceptability of information and dangers in the financial industry.

2. Review of literature

In their study published in 1956, Horton and Wohl described how audiences feel emotional emotions toward media personalities without a response. This idea works in digital settings as well, since influencers, especially finfluencers use their perceived closeness to gain trust with their fans (Anderson & Jiang, 2018). Because of these relationships, followers are more likely to trust the information they get.

Kahneman (2011)pointed out that cognitive biases, for example FOMO, are common in the way people make financial decisions. This information helps us see why people are encouraged to adopt risky behaviours suggested by finfluencers and sometimes forget to think things through (Kaplan & Haenlein, 2020).

Chen et al. (2021) and Popper (2021) connected finfluencers to the broader impact of social media on traditional financial authorities including brokers and CNBC. These studies show that crowd-sourced financial tips caused the market volatility seen in the GameStop short squeeze because many people acted the same way online.

Tufekci (2018)pointed out that digital platforms can be used to share information but they tend to show content that gets the most attention from users. As a result, emotionally involving but misleading financial stories become more noticeable to many, increasing the likelihood of misinformation for ordinary people.

Authorities are now recognizing these issues. The United States' SEC (2021) and India's SEBI (2022) agree that the existing means of disclosure do not address challenges from influencer marketing across borders. Despite the FTC (2022) making new rules for sponsored content, companies continue to violate them. According to Smith (2020), a major issue found in affiliate-driven marketing is repeated conflicts of interest which illustrates the need for strong rules and more openness in finfluencers' activities.

3. Objectives

To analyse the revenue systems and business practices of financial influencers, to see if their content neutrality is influenced.

To study the psychological, regulatory and ethical problems in Finfluencer's posts, with suggestions for reducing the risks to investors.

4. Methodology

This study uses a structured approach to review academic papers, industry guidelines, media articles and public records to explore how financial influencers influence modern financial markets. After studying case studies and current research, various aspects of cash settlement in the UK are brought to light. Experts from different fields such as finance, media studies and psychology join forces to design a model for understating how influencers impact the world of retail investments.

5. The Evolution of Financial Content

Financial advice was once provided by experts, financial advisors or outlets like CNBC. But these days, you can see snippets of sauce from X and Instagram on your social feeds. On the bright side, learning money matters can be easier and more engaging, but flashy and viral info is sometimes easier to find than actual useful advice. It is young investors in particular who are drawn to these easy-to-understand videos, helping to grow this latest style of financial education. When the GameStop hype occurred in 2021 and trading rose during the pandemic, finfluencers played an even bigger role in how people invested.

6. Types of Finfluencers

Finfluencers are often grouped by what they know, the method they use to share information and whom their posts are aimed at. Every kind of article serves its own purpose in forming the habits of retail investors.

Certified Professionals: You can count onthem since they are licensed like CFA and CFP and follow regulations to advise you. Most of what they show is informed by research, yet some find it less exciting when viewing casually.

Self-taught Financial Bloggers: People without formal knowledge in finance who talk about their investment adventures. Even though they are easy to understand, their solutions are often too basic and don't always work.

Tech-Driven Influencers: These types of creators rely on tools or data analytics to offer automated insights and stock selection plans. They are designed for tech-savvy users, but sometimes appear confusing and cold.

Lifestyle-Based Influencers: Some influencers mix tips for managing finances with dreams of achieving FIRE (Financial Independence, Retire Early). The types of messages they present attract a young audience, though some of their guidance oversimplifies key financial ideas.

Niche Experts: Very focused on crypto, real estate or day trading by sharing specialized insights. Nevertheless, they could favour their area of expertise and encourage strategies with big dangers.

7. Business Models and Monetization

Most finfluencers earn money by offering education and including advertising for financial services. While they help businesses continue, they can affect the unbiased balance of different views.

Sponsored Content: Many brands sponsor content created by finfluencers to introduce people to financial products. These promotions seldom include real disclosures which creates transparency problems.

Affiliate Marketing: Influencers post referral codes and earn payment when followers act on them. As a result, sometimes, the recommendations are for costly networks instead of helpful products.

Ad Revenue: YouTube and Instagram earn money for influencers by counting views and the level of audience engagement. Therefore, companies tend to publish entertaining content, even if it is not as accurate as it could be.

Subscription Services: You can gain access to unique content by signing up with newsletters, joining Discord groups or using Patreon for a monthly fee. They bring together devoted followers yet often make finfluencers feel they must give out useful advice all the time.

Digital Products: Creating e-books, online courses and webinars gives you a way to earn from home. While some programs are genuinely useful, a few try to make you sign up so they can sell content you could get elsewhere for free.

8. Psychological and Behavioural Influence

Many finfluencers grow close to their followers through emotional relationships that produce trust and intimacy. Because of this supposed bond, participants are more likely to accept directions given by the leader.

Herd mentality is common, where investors will blindly follow trends that influencers encourage, mainly during times when something is trending online. Because of this attitude, many individuals avoid making their own assessments, making the market less stable.

Followers sometimes act rashly thanks to **FOMO** and overconfidence when something is marketed as a must-see, must-know event. When these triggers act, they can lead people to act less sensibly with their finances and risk losing more.

9. Regulatory Landscape

To make sure that influencer marketing is transparent, there are now disclosure rules put in place by the SEC (U.S.), SEBI (India) and FCA (UK). Nevertheless, it is difficult for enforcement to keep up because of the large amount of material and continuous developments on social media.

Many people who are influencers do not tell their fans when they promote products for money which is misleading and illegal. It gets more confusing because many influencers also have followers from different countries and regulatory bodies.

Only a few platforms have tried to make things clearer, leaving most without any automatic way to monitor or stop violations. Coordination needs to increase between the platforms and the regulators to ensure retail investors are well protected.

10. Ethical Concerns

Many times, the information from finfluencers raises ethical problems that distract investors and create uncertainty in the market. People have these concerns due to false advertisements, hidden information and exploitation of followers' beliefs.

Pump-and-Dump Strategy: A few influencers try to increase the cost of stocks they don't really support, only to then sell them for their own gain. Because of this attitude, inexperienced investors get caught buying at rates that are much higher than what they should be.

Undisclosed Sponsorships: Influencers keep promoting financial products but fail to say they are getting paid for them. As a result, followers think the advice they get is fair and truthful.

Exaggerated Claims: Many new investors become interested in risky options due to big claims of wealth and high returns. This material leads to unrealistic goals and can make someone act foolishly with their finances.

To solve these ethical issues, there should be tighter disclosure rules, more accountability on platforms and more attention to money on behalf of users.

11. Discussions

By being both information providers and companies, finfluencers find it tough to separate promoting knowledge from making money. While most explain difficult topics and encourage financial knowledge, their materials are sometimes adjusted to benefit monetization.When sponsorships and affiliate business are invisible, it becomes difficult for followers to know the difference between reliable recommendations and advertising. As a result of this confusion, people may receive biased opinions and trust the wrong services.

Because content can become viral on social media networks, the advice often stresses headlines over truth. As a result, people are more likely to hear misleading news, especially during memorable market events such as the GameStop rally.Being influenced by parasocial bonds and herd behaviour reduces a retail investor's ability to think critically. That's why a lot of people make impulsive decisions based on advice that does not provide the right details.

A proper way to overcome these problems is to motivate innovation, make sure ethics is followed and support the education of those who invest.

12. Conclusion

Because of finfluencers, there is now more access to financial education for everyone in the retail investing market. Since their goals are often in conflict with fair advice, this can result in wrong information, market tampering and harms to people who invest. Despite the best efforts of regulators, their rules are not always applied equally and the unique issues of social media platforms are not considered in current regulations. Despite the problems, working with finfluencers has made financial literacy better for investors under the age of thirty. We should now adopt a balanced method to make sure finfluencers' contributions to financial markets remain open and accountable. Part of this is for platforms to promote openness, regulators to set up the same guidelines and investors to carefully check the advice they receive.

13. Recommendations

It is important to put in place several essential recommendations to maintain responsible influence in digital finance. **Platforms** should automatically reveal all sponsored content as soon as it is posted and put unproven financial advice lower in their rankings. Because of this, misinformation will be less common and things will be more straightforward. A worldwide agreement on disclosure should take place for **regulators**, so that those who engage in pump-and-dump schemes face fitting penalties. **Investors** should receive information to help them analyse influencers' backgrounds, recognize biased advice and avoid following information without questioning it. Doing these will make things more open and trustworthy for retail investors.

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