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Quality of Advice Review Secretariat Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

To whom it may concern

RE: QUALITY ADVICE REVIEW

Please see below my submission to the Quality of Advice Review.

Introduction

Plenty Wealth, a related entity of Lime Actuarial, provided holistic digital financial advice (that is, advice with a broad scope) to consumers. The scope of the advice included budgeting, cash flow, debt, insurance, rollovers, contributions and superannuation pensions. To the best of my knowledge, no other digital advice provider in Australia had a scope as broad as that of Plenty Wealth, and no other digital advice provider in Australia (and possibly the world) had an advice algorithm as sophisticated.

Plenty Wealth, and its related business Plenty Plus, ceased providing financial advice in June and September of 2019 respectively. The businesses faced regulatory challenges which were a major contributor to the decision to cease operations. I was the founder, Director, Responsible Manager, Financial Adviser and majority shareholder of Plenty Wealth and Plenty Plus.

It is my opinion that the regulatory challenges we faced are inhibiting the development of holistic financial advice in Australia. Plenty Wealth and Plenty Plus are cases in point. Consumers suffer the most from this – those who need advice the most can't obtain it in an affordable manner.

I prepared a submission to the Financial Technology and Regulatory Technology Senate Select Committee in 2020. My submission focused on 3 areas:

1. ASIC not providing regulatory certainty to Fintech businesses
2. The challenges faced by digital advice businesses in relation to data consistency
3. Best Interest Duty.

Here is a linked copy of that submission which is relevant for the current Review.

https://www.dropbox.com/s/6lnm7f6q68oexgm/Submission%20to%20Senate%20Committee%20-%20Plenty%20Wealth%20v3.pdf?dl=0

I am an actuary with over 25 year's experience in the Australian Financial Services industry, including 7 years as a financial adviser. My specific experience relates to Digital Advice. I have responded to the questions where my knowledge and experience are most relevant.

Q11 - Could financial technology (fintech) reduce the cost of providing advice?

Yes, in a significant way. Technology can reduce the marginal cost of providing advice to nearly zero for each incremental customer (assuming the customer is happy to be served purely by a computer, which many are). That is, the most significant costs such as onboarding customers, collecting Fact Find information, KYC, preparing SOAs and implementing advice can be nearly eliminated once the technology is built.

For those consumerw who prefer human interaction, this interaction can be overlaid on top of the technology so the incremental cost is only the time spent in meeting 1-on-1 with clients using technology such as Zoom.

Q12 - Are there regulatory impediments to adopting technological solutions to assist in providing advice?

Yes. The most significant impediments are addressed in my submission to the Financial Technology and Regulatory Technology Senate Select Committee in 2020.

https://www.dropbox.com/s/6lnm7f6q68oexgm/Submission%20to%20Senate%20Committee%20-%20Plenty%20Wealth%20v3.pdf?dl=0

These are:
1. ASIC not providing regulatory certainty to Fintech businesses
2. The challenges faced by digital advice businesses in relation to data consistency
3. Best Interest Duty.

Q15 - What are the barriers to people who need or want financial advice accessing it?

The barriers are:
1. Cost
2. Lack of awareness of what financial advice is, and how it can help them
3. Most people want simple advice for a specific issue, often on a once-off basis. The current industry model doesn't support this.

Q16 - How could advice be more accessible?

The regulatory regime should be overhauled. The qualifications and documentation for simple and scaled advice should be simplified based on the risk (potential harm) associated with different types of advice. For example, many consumers only want advice on a simple topic such as contributions to super or commencing an Account Based Pension. Providing this type of advice should not require the same qualifications and documentation as, for example, investing in a Hedge Fund.

Q18 - Could financial advisers and consumers benefit from advisers using fintech solutions to assist with compliance and the preparation of advice?

Yes.

Digital advice can bring down the cost of advice significantly, making advice more accessible.

Q19 - What is preventing new entrants into the industry with innovative, digital-first business models?

See response to question 12.

Q32 - Do you think that limited scope advice can be valuable for consumers?

Yes. Most consumers don't require holistic advice. They require advice on a single issue. However, the current regime pushes them towards holistic advice and therefore becomes unaffordable.

The evolution of the medical GP industry provides a good model. Medical centres enable us to see a GP to discuss a single health issue at a very low cost. If the financial advice industry could create a similar model then advice would become significantly more accessible and scalable.

Q 34 - Other than uncertainty about legal obligations, are there other factors that might encourage financial advisers to provide comprehensive advice rather than limited scope advice?

There are some clients who want ongoing service covering all aspects of their financial affairs. If limited scope advice was easier to deliver, these clients would be in the minority.

Q35 - Do you agree that digital advice can make financial advice more accessible and affordable?

Yes.

Firstly, the marginal cost of delivering advice can be very close to zero, see Q11.

Furthermore, many consumers want to interact online. They are accustomed to doing banking online, shopping online, booking travel online etc. Online interaction is more convenient and can be instantaneous. Compare this with the process of travelling to an adviser's office during business hours (which is difficult for someone with a job), spending hours completing forms, and then waiting weeks for the advice. An interesting anecdote – At Plenty Wealth we often called clients to seek feedback or clarification. Many clients were taken aback – they selected us because we were a digital service and didn't want to have to speak with us over the phone.

Q36 - Are there any types of advice that might be better suited to digital advice than other types of advice, for example limited scope advice about specific topics?

Limited Scope advice is well suited to digital. Holistic advice can be provided digitally too (as we did with Plenty Wealth), however the Best Interest Duty would need to become less prescriptive, and the algorithm can become more complex.

Q37 - Are the risks for consumers different when they receive digital advice and when they receive it from a financial adviser?

The risks lie in the consumer properly understanding the advice, and then implementing it correctly.

These risks can be overcome through a hybrid model where the advice can be provided digitally and then the client has an optional meeting with the adviser. The regulatory framework should provide choice to consumers with different levels of risk and different levels of human interaction. If a client wants to engage in an entirely digital fashion then they should be allowed to do so.

Many observers would claim that digital advice introduces risk of technology error. This is true in the early stages of any technology. Despite extensive testing, bugs are still possible (and likely). This risk can be reduced by active monitoring of results. Over time, the number of bugs will reduce significantly, and will eventually be close to zero. This should be contrasted with human error, which will always exist when advice is produced manually.

Q38 - Should different forms of advice be regulated differently, e.g. advice provided by a digital advice tool from advice provided by a financial adviser?

As stated in my submission to the Financial Technology and Regulatory Technology Senate Select Committee in 2020, the onus for providing correct information to a Digital Advice service should rest entirely with the consumer.

Q39 - Are you concerned that the quality of advice might be compromised by digital advice?

No.

The quality of digital advice can (and usually will be) very good. <u>The comparison should be between digital advice versus no advice at all, NOT digital advice versus human advice.</u>

Cars provide a good analogy. Arguably, the quality of a Hyundai will never be as good as the quality of a Mercedes. Should Hyundai cars be banned? To the consumer who only has $30,000 to spend on a car, the choice is not Hyundai versus Mercedes. The choice is Hyundai versus public transport. And similarly, to the individual with simple advice needs, the choice is often between digital advice versus no advice at all. When you frame the problem this way, the case for digital advice becomes compelling.

It is important that digital advisers recognise their limitations and filter out (ie triage) clients for whom the digital advice is not appropriate. For example, at Plenty Wealth we filtered out clients with investible assets of more than $1m, clients who were going through divorce, clients with significant health issues, and a range of other scenarios.

Let's look at how human advisers make recommendations. Most advisers have a set of rules in their head when they provide advice. For example, they have a model investment portfolio for young clients with high tolerance for risk. They have a different model portfolio for older clients with less risk tolerance. They will recommend an Account Based Pension to clients who are aged over 65 or Retired. They will recommend voluntary concessional contributions to clients who have paid off their debt, are cash flow positive and don't have any major financial commitments prior to retirement etc. Digital advice simply takes these rules and applies them in the appropriate circumstances.

That is, digital advice and human advice will usually provide the same recommendation. And if the recommendation is different, it will usually be a result of a different advice methodology. For example, the person behind the digital advice prefers ETFs whereas the human adviser prefers active funds.

Where digital and human advice differ most is not the advice itself, it is the conversation that takes place between the adviser and the consumer.

Q40 - Are any changes to the regulatory framework necessary to facilitate digital advice?

See my response to question 12

Q42 - In what ways can digital advice complement human-provided advice and when should it be a substitute?

It is up to the advice providers to select their business models and then for consumers to decide which business model works best for them. The law should facilitate a range of models from digital only to hybrid to human only.

Q43 - Do you consider that the statutory safe harbour for the best interests duty provides any benefit to consumers or advisers and would there be any prejudice to either of them if it was removed?

The Best Interest Duty as it stands increases the cost of providing advice, creates regulatory uncertainty, and makes it difficult to provide limited scope advice.

Q46 - To what extent can the best interests obligations (including the best interests duty, appropriate advice obligation and the conflicts priority rule) be streamlined to remove duplication?

The Safe Harbour can be reduced to 2 parts: (1) the client's interest should be prioritised above the adviser's, and (2) the client should be better off as a result of the advice, than he/she would have been otherwise

Conclusion

With the right regulatory framework, digital advisers would be able to provide advice with more regulatory certainty and lower costs. This will make affordable, high quality digital advice more accessible for the community.

Please feel free to contact me should you have any questions.

Yours sincerely,

Greg Einfeld
Director