



18 May 2022

Quality of Advice Review Secretariat
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Scientiam submission - Quality of Advice Review - Issues Paper

About Scientiam

Scientiam is a low-cost digital advice solution founded in 2019 by the same team behind Sydney-based professional advisory firm Arch Capital.

Established in 2012, Arch Capital is a self-licensed private wealth management firm that specialises in strategic financial advice, retirement planning and investment management. Scientiam was originally created to solve one of Arch Capital's biggest problems: how to efficiently and cost effectively deliver affordable, quality advice to less complex or low balance clients and new clients with relatively simple needs. This often included the adult children of existing private clients.

For \$9 per month, clients can access general information, financial literacy and educational content prepared by Arch Capital's advice professionals. They will also have access to invest in low-cost diversified superannuation and investment accounts from \$49 per month.

With Scientiam, Arch Capital can offer quality general information for \$108 per annum per client. If a client requires personal advice at any point, they can easily contact the financial adviser they are linked to via the Scientiam portal.

In early 2022, Scientiam was launched to the external market. The company's mission is to increase financial literacy by helping other financial advisers to deliver a scalable service to the growing number of Australians who don't want, can't afford, or no longer require comprehensive personal advice.

Introduction

Scientiam supports the objectives of the Quality of Advice Review and agrees with many of the observations made in the Issues Paper.

We commend Treasury's desire to improve advice quality, accessibility, and affordability, and remove impediments to new forms of advice.

According to research by Adviser Ratings, at least 40% of Australians can afford professional advice yet only 11.2% of Australians aged 21 and over receive it¹.





This suggests that the reasons why more people don't seek advice is much more complex than simply cost.

The majority of Australians just don't want what the advice industry is offering, despite the enormous value it can add.

We believe that technology has the ability to underpin the advice industry's growth, giving more people access to information and alternative advice models.

A simplified regulatory framework that encourages knowledge sharing would encourage greater exploration and investment in new forms of advice.

There is still too much confusion around the terms 'general advice' and 'personal advice'. Many advisers and Australian Financial Services Licensees (AFSLs) are afraid to offer general information, despite the potential to help more people, for fear of accidentally crossing into personal advice.

This confusion could be eliminated by scrapping the term general advice altogether.

A clearer and more accurate description is general information.

Information is not advice and should not be represented as such.

Information provided by a super fund or product manufacturer is not advice. Information provided by a financial adviser is not advice either.

Clear labels would strengthen consumer protections and give advisers the confidence to share more of the knowledge in their heads.

This would address the information asymmetry that has existed since the industry's inception. For too long, advisers and industry professionals have held all the knowledge. They've been able to share it with a fortunate few, leaving the average person to rely on friends and family, books and the internet for information.

The credibility of many of these sources is questionable.

Scientiam was established to close the information gap and allow Arch Capital to help more people. We believe financial advisers, given their qualifications, experience and skills, are ideally positioned to provide general information.

This submission focuses on the questions related to technology and digital advice, reflecting Scientiam's key areas of expertise.

Thank you in advance for reading our submission. Please do not hesitate to reach out if you would like more information on any of the matters raised.

1. 2020 Australian Financial Advice Landscape by Adviser Ratings (page 8)



Questions

11. Could financial technology (fintech) reduce the cost of providing advice?

Arch Capital has been using technology for many years to reduce the cost of providing both general information and personal advice.

For personal advice, Arch Capital uses solutions like DocuSign and DASH's Advice Marketplace to automate and speed up processes, and deliver a faster, more convenient client experience.

With Scientiam, we are delivering high quality general information from \$9 per month, per client. Client can also access diversified investment portfolios from \$49 per month.

An advisory firm could efficiently service 100 less complex or low balance clients for around \$11,000 per annum, considerably less than current propositions.

The advice industry has not even scratched the surface in terms of technology usage. The majority of businesses still rely on manual processes and are making little progress to adopting advice tech, despite the ready availability of fit-for-purpose off-the-shelf solutions.

14. In what circumstances do people need financial advice but might not be seeking it?

People with low superannuation balances of around \$30,000-\$40,000 aren't seeking professional advice for a range of reasons. Firstly, they see their needs as too basic.

Current advice propositions, which are predominately based on a personal and ongoing relationship, are also costly.

It is also difficult for consumers to access simple, one-off advice that does not involve a product. For example, a common issue for many Australians, given this nation's obsession with property, is should I prioritise paying down the mortgage on my home or my investment property? Which is more tax effective?

These questions can arguably be addressed in a couple of hours for a couple of hundred dollars.

However, it currently falls under the category of personal advice, which means an adviser must formally engage that client, complete a fact find, understand their situation, produce a Statement of Advice that explains the pros and cons of both strategies, and makes a recommendation.

That kind of proposition costs thousands of dollars.

15. What are the barriers to people who need or want financial advice accessing it?

Falling adviser numbers are a major concern and there is no quick fix for this problem.



From 1 December 2021 to 12 January 2022, 847 advisers left the industry, reducing the number of advisers to around 17,000, according to research by Wealth Data.

Advice businesses are struggling to recruit both senior and junior staff.

The barriers to entry are too high with only a small number of universities and tertiary education providers offering financial planning courses. With the institutions and banks out of personal advice, there aren't any big employers recruiting and employing large numbers of graduates, leaving only small businesses to hire and train talent one at a time.

There is no quick solution for the skills shortage, making it imperative for the industry to develop new advice models and use technology to efficiently disseminate information.

Digital solutions like Scientiam can help businesses service low value clients; a task usually performed by junior advisers.

It could enable advice teams to help many more people rather than a lucky few.

16. How could advice be more accessible?

Advice and information should be available in multiple different forms, at different price points, to suit a variety of needs and budgets.

Professional financial advisers are ideally positioned to provide both personal advice and general information. They can quickly ascertain if a person is better suited to a personal advice proposition or general information.

An integrated approach would maximise the probability of a client receiving high quality information and advice information throughout their life.

For general information clients, an integrated solution would allow them to seamlessly transition to a personal advice relationship, as their needs and circumstances change.

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

In other industries and professions, technology is being used to speed up processes, minimise errors and reduce costs. Advice is no different. Every business can benefit from embedding technology into their systems and processes.

COVID-19 has changed the way businesses operate forever. It has debunked the myth that advice must be provided face-to-face and one-on-one for maximum effectiveness.

Traditional advice models are based on physical meetings, complex needs and a lot of documentation. With fintech, advisers can potentially offer simple, paperless advice and information on a one-to-many basis.



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

A lack of confidence in the regulatory regime is a major impediment.

There has been so much regulatory and structural change in the past decade that advisory firms and other service providers to the industry are concerned about the goal posts shifting again.

A period of stability and a regulatory setting that encourages innovation and knowledge sharing is needed.

The rigid definition of personal advice is another impediment. In practice, as soon as an adviser knows a little bit about a client's personal circumstances, they feel they must provide personal advice.

Even if a client requests advice on one specific area such as investment only advice, legislation is such that advisers and AFSLs are exposed to risk if they miss something in a client's life that could impact the advice and outcome.

Logically, advisers should give clients the advice they want and need, in the same way other professionals like accountants, doctors and lawyers do. A doctor does not perform a full medical and scans on every patient. Neither should an adviser need to conduct a full fact find, needs analysis and SOA.

Quality advice is also advice that is right for the client and meets their immediate needs.

The advice industry is trying to force people to fit the model it has created but it should be tailoring its service proposition to suit the needs of consumers. Consumers should determine the type and level of advice they want and need. If it is genuinely personal advice, then the format should not be predetermined ahead of time.

20. Is there a practical difference between financial advice and financial product advice? Should they be treated in the same way by the regulatory framework?

Financial product advice is not advice. It should be called information.

Financial advice and product information should be separate. Advisers may need to recommend a product to implement their advice but there should be no link.

Intra-fund "advice" is a form of financial product information but that is not immediately clear to members.

Advisers who are linked to a super fund or product issuer can only provide information. To use a medical analogy, doctors are independent and give independent advice. They may recommend medication or treatment, but they don't sell it. Pharmacists sell product. The two propositions are very different and separate.



21. Are there any impediments to a financial adviser providing financial advice more broadly, e.g. about budgeting, home ownership or Centrelink pensions? If so, what?

Financial advisers are still too good at selling product and not good enough at sharing information and providing non-product related advice.

This is due to the industry's product selling roots and history of institutional ownership. The current licensing regime reflects the heavy institutional involvement. It continues to hold the industry back from separating product and advice becoming a bona-fide profession.

Current discussions by the Australian Law Reform Commission (ALRC) to potentially remove Chapter 7 from the Corporations Act may lead to changes to the licensing regime and the move to individual adviser registration.

Unlinking the adviser/licensee relationship would encourage greater innovation.

Given licensees carry significant regulatory risk and responsibility for a number of advice businesses, they tend to be risk adverse. This eco-system does not encourage innovation and risk taking. A move to individual licensing would give advisers greater autonomy to take calculated risks and find solutions to solve their clients' problems.

22. What types of financial advice should be regulated and to what extent?

All advice should be regulated. There should be no exemptions.

There should not be a distinction between retail and wholesale clients. All advised clients should have the same rights and protections.

Wholesale clients are not in a better position to look after their own interests by virtue of simply being wealthier.

With rising property prices, strong equity markets and more Australians receiving large inheritances, it is not uncommon for someone to accumulate \$2.5 million in assets or gross income of \$250,000.

The wholesale investor exemption has enabled brokers and private client advisers to sell products and services without properly assessing a clients' needs, documenting their advice, and disclosing important details. Wholesale clients also do not have the same avenues for recourse as retail clients, should something go wrong.

At Arch Capital, all our clients are treated as retail clients although around half legally qualify as sophisticated wholesale investors. We could reduce our obligations and cost-to-serve by treating these clients as wholesale investors, but we do not believe that is in our clients' best interests.





Scientiam

23. Should there be different categories of financial advice and financial product advice? If so for what purpose?

We believe there should only be two categories: Advice and information.

There is no such thing as financial product advice only financial product information.

24. How should the different categories of advice be labelled?

As above. There should be two categories: Advice and information.

General information is not advice. Scientiam provides general information.

Arch Capital is a financial advice firm that also provides general information, and we are not trying to disguise that.

The term general advice is confusing for consumers and advisers.

General information providers give clients access to the information they need to make informed decisions. If a client needs personal advice, they can see an adviser.

Scientiam has an integrated approach to general information and personal advice.

27. How does applying and considering the distinction between general and personal advice add to the cost of providing advice?

A clear distinction between general information and personal advice would support the development of quality general information services.

Within the category of personal advice, there should be tiers.

Personal advice should take many forms, not just a comprehensive ongoing service proposition.

Consumers should also have access to cost effective, limited, or scoped advice on an ad-hoc basis.

35. Do you agree that digital advice can make financial advice more accessible and affordable?

Yes. The advice industry needs to find a way to get the knowledge inside advisers' head out and in a format that can easily and cheaply accessed by more people.

A lot of this knowledge is general information including foundational wealth creation and wealth protection principles that apply broadly to everyone such as "don't spend more than you earn", "invest in a diversified mix of high-quality assets" and "past performance is no indication of future performance".



36. 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?

Digital solutions can help with the large-scale dissemination of quality general information.

Digital solutions are content-driven and general in nature; therefore, they suit people with relatively simple needs. Examples of simple needs may include starting a savings plan, creating a budget and consolidating superannuation accounts.

With an integrated approach to advice, consumers can access general information and personal advice under the one roof. Advisers can quickly determine if a client is better suited to a general information solution or personal advice.

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

The quality of a digital solution will depend on the quality of the provider, which is why qualified, experienced advisers are ideally positioned to provide a digital solution as a complement to personal advice.

A digital solution that is backed by a credible source is always going to be better and lower risk than a service offered by the media, a product manufacturer or unqualified influencer.

With the media, Google and influencers, many people accept that they can't believe everything they read.

Similarly, if a product manufacturer is providing general information that information is not independent.

However, if an advisory firm is offering a digital solution there is an assumption that information is higher quality because is independent and backed by trusted source.

This is why Scientiam is only available through a financial adviser.

38. Should different forms of advice be regulated differently? E.g. advice provided by a digital advice tool from advice provided by a financial adviser?

Digital solutions that are underpinned by content, calculators and tools provide general information not advice.

Delivered the right way, with clear and accurate labels, digital solutions can enhance the quality of information people have access to.

40. Are any changes to the regulatory framework necessary to facilitate digital advice?

As mentioned above, there must be a clear distinction personal advice and information.

41. If technology is part of the solution to making advice more accessible, who should be responsible for the advice provided (for example, an AFS licensee)?

Financial advice businesses and financial information providers should be subject to same laws that govern all organisations and information providers.

Digital service providers should be responsible for the information they publish, not necessarily AFSs. A move to individual adviser registration would make advice businesses responsible for the service and advice they provide.

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

The advice industry should have a service proposition for all types of consumers.

People with complex needs should be able to access affordable personal advice, whether it is limited scope advice or comprehensive, ongoing advice.

People with relatively simple needs should be able to access quality general information to help educate them, inform their decision-making, and develop healthy financial habits.

As a person's circumstances change and their needs evolve, they should be able to seamlessly opt to see a quality adviser for personal advice.

Conclusion

Thank you for the opportunity to share our experiences and express our informed views.

The Quality of Advice Review is a unique opportunity for Treasury to consult with the advice industry to bring about positive change in the best interest of consumers.

We are happy to clarify any of the statements made in this submission and welcome any opportunity to discuss the issues raised.

Yours sincerely,

Nigel Baker