

Quality of advice review - a.i.

About Advice Intelligence

Our reason for being is to help financial advisers to deliver inspiring, empowering wealth management solutions to consumers. Our intent is to redefine the client experience of financial advice better align with what today's tech-savvy consumer expects when seeking financial advice. Why?

We believe that financial wellbeing is one of the most powerful things any Australian can experience, and in providing financial advisers with modern arsenal of digital tools, all within an integrated, intelligent, and simplified financial advice software platform, we can proudly lead the path towards making financial advice more accessible, efficient and sustainable.

a.i. commenced building a digital financial advice platform five years ago, armed with a team of 50 of the smartest software engineers, actuaries, and finance subject matter experts.

We've invested over \$50m into our innovative technology platform and truly see ourselves at the forefront of holistic digital advice, shaping the digital advice transformation in Australia.

To support our mission in scaling digital advice adoption within the finance industry, we are backed by one of the largest investment firms in APAC.

Introduction

As a tech provider and observer of licensees', advice practices, and consumers, our submission provides a this outside and technological lens on the Australian financial landscape, with a consumer-centric, and objective view of the current and future advice model.

We've witnessed a shift in the current advice business model, mainly driven by the triangulation of regulation, technology, and consumer demand.

A substantial gap exists between the way in which consumers interact, through smartphone technology and life apps, as opposed to the way financial advice is traditionally delivered manually and through paper.

Financial planning tools are vital for advisers in assisting clients to meet their financial goals, and in modelling their current and future financial circumstances to produce a sound financial plan.

Quality financial advice requires robust numbers and today's technology needs to be able to combine a client's current financial circumstances with their future goals, net wealth, cash flows, strategies, and other economic factors on a multi-dimensional level.

With an ever-moving regulatory landscape, along with advancements in technology, advisers are being thrust into a new era of financial planning, unlike one that we've ever seen before.

As a result of entering this new era, licensee and advisers are looking to leverage technology as the only real enabler, to redefine their business models, and reassert their focus on client relationships - including the softer skills, necessary to best demonstrate their advice value.

Advances in technology are now transforming advice practice into a digital process, where the customer experience is one that clients can better understand, participate in and engage with. This also encourages client's to take on more responsibility for any prospective outcomes in accordance with the role they play in the management of their finances, especially towards achieving their life goals.

Please note - there is a disconnect between ASIC's definition of digital advice referenced in the Quality of Advice Paper and our fintech that is focused on delivering digital financial advice to the industry.

In our submission, I will reference our definition of digital advice as two advice models - "do with" the **Hybrid Adviser**, or Hybrid Advice model, which powers advisers with smarter technology, and the second "DIY" the **Digital Adviser** model.

These two models will evolve throughout the different levels of automation as technology like Machine Learning is applied to the industry.

The starting point for the Review is that quality advice can be accessible and affordable.

I do believe that these two items are mutually exclusive and I do not see a trade-off of one for the other.

We are also starting to see the introduction of alternative advice providers who, using new technologies, are providing people with greater choice around how to access advice.

However, digital advice remains a small segment of the market with only one percent of Australians having used digital advice.

71% of consumers use online banking & finance apps, consumer demand for digital/app based advice is sizable in proportion.

The issue here is that the technology is complex, due to the complexities of tax & super legislation, and the right digital advice model has not been introduced to the industry, however this is changing.

A digital, live financial plan delivered in the format of a smartphone app would see a massive consumer uptake and wide mass market adoption. Though digital advice has only recently turned a corner, our technology is set to change this, especially over the next 1-2 years as this new digital advice model emerges.

The biggest challenge we face in introducing digital advice, which in turn, will bring great opportunities to our industry is two fold;

i) ASIC's support and guidance as they take a very hands off approach, especially towards new innovation, and;

ii) incumbent providers foothold on Licensees, Licensee's are so bound by fear from the regulatory body that they have misconstrued their own individual interpretations of regulator guides, and to step into any new tech innovation, means heighten risk. This is based on pure perception, digital AdviceTech is being built on today's regulatory environment, not one of 10-15 years ago. The traditional licensee model cannot keep repeating the same decisions around the tech providers, as they only keep getting the same outcomes.

I believe the many of the outcomes and recommendations from the Royal Commission stem from the very fact that most licensees operate from incumbent legacy technology.

Licensee's should be using technology that helps them to:

- i) prioritise clients
- ii) track advice, fees & services
- ii) centrally store data & records
- iv) monitor compliance across their advice process

Please find responses to the relevant sections on technology. I welcome the regulatory audience to reach out should they want further discussion on digital advice.

Quality Financial Advice

- **What are the characteristics of quality advice for providers of advice?**

To deliver advice perceived as quality and valuable, from a client's perspective, it requires a shift from the more traditional advice process, which has been designed around tangible value, products, outperforming markets, and meeting compliance requirements. A shift is required towards one that focuses on a client's goal outcomes, ongoing coaching of their behaviours & mindset, and the tracking over the course of the client's advice journey.

To rethink and redesign the traditional manual advice process, there needs to be a wider focus on the clients' challenges, rather than a primary focus on regulatory and industry challenges like compliance, as this ultimately eats into the value chain and in turn increases the cost of advice for consumers.

Fortunately, technological innovation is playing its role by supporting a new-world advice process with efficiencies and tangible benefits, and can free up an adviser's time and capacity, as well as improve client outcomes at scale.

Tangible	Intangible
SOA document (static, incomprehensible, put in a drawer to never look at again)	Robust, client-facing scenario modelling of their goals, trade offs, advice strategies, stress tests - exploring all potential possibilities for their future as a co-creation experience, a process they feel part of.
Advice strategies recommended	Solving specific problem/s - both upon seeking advice and proactively & dynamically as they arise along the client journey.
Financial products recommended	Achieving their life dreams & goals - leveraging super, pension, investment & bank account data to feed into their live financial plan in relation to their goal achievability % measure.
Market performance of products/investments	Transforming their situation
Technology - financial plan as a smartphone "life app", login daily to see how they are tracking to their plan and life goals	Helping to make life decisions
24x7 access to their financial plan, SoA, services, fees and chat virtually with their adviser	Coaching their mindset, financial behaviours & keeping them accountable
	Tracking advice toward goals (goal achievability as a % measure)

• **What are the characteristics of quality advice for consumers?**

I'd like to explain the characteristics of quality advice as tangible and intangible.

Advances in digital advice technology, like a.i.'s, have introduced ways to improve the tangible benefits as well as introduce ways to manage the intangible benefits that clients are seeking most.

This includes elements that ASIC regulates, such as tracking that a client is following an advisers advice in relation to the client's goal outcomes. Advisers and licensees find it near impossible to do this without the resource of smarter technology, which has not been historically available to them.

Recently, I presentation to 1,200 advisers at an XY Adviser event, I discovered that out of 491 advisers who answered a compliance poll, that on average 40.6% were "somewhat confident" to "not confident" in these compliance areas:

RG 175.248 - "provide strategies & options available to the client to meet objectives & needs."

RG 175.249 - "how strategy of advice is linked to, or might be achieved by, the recommendation"

RG 175.254 - "advice provided will leave the client in a better position"

RG 175.255 - "client is likely to be in a better position if the client follows the advice"

This is due to the fact that these compliance requirements cannot be done via static paper - SoA. With no data driven financial plan, no digital scenario modelling tools that link a client's financial position & life goals, to the adviser recommended advice strategies & investments, how can an adviser demonstrate a client's better position? How can they monitor if the client is following the advice from paper? It is nigh impossible and unrealistic for ASIC to set such rules without the foundations of digital advice.

The lack of tools available to advisers has been this industry's biggest challenge, the legacy technology that forms the backbone of this industry is still producing static-paper-based financial plans, whilst compliance obligations are designed to measure client outcomes dynamically. This disconnect can be bridged using our unique digital planning platform.

It is impossible to track if a client is following a static paper SoA, similarly, it is impossible to track if a client has achieved their goals over time without having access to live data points, like the client's investment and bank account data, feeding into their plan and that their goals are linked to advice strategies.

Incumbent technology providers have played a role in this compliance gap. As new regulation has been introduced, incumbents have sat on their hands and provided no innovation to help advisers meet these obligations, that being left to smaller start-ups wanting to make change and help advisers - with little support from industry, capital and regulators.

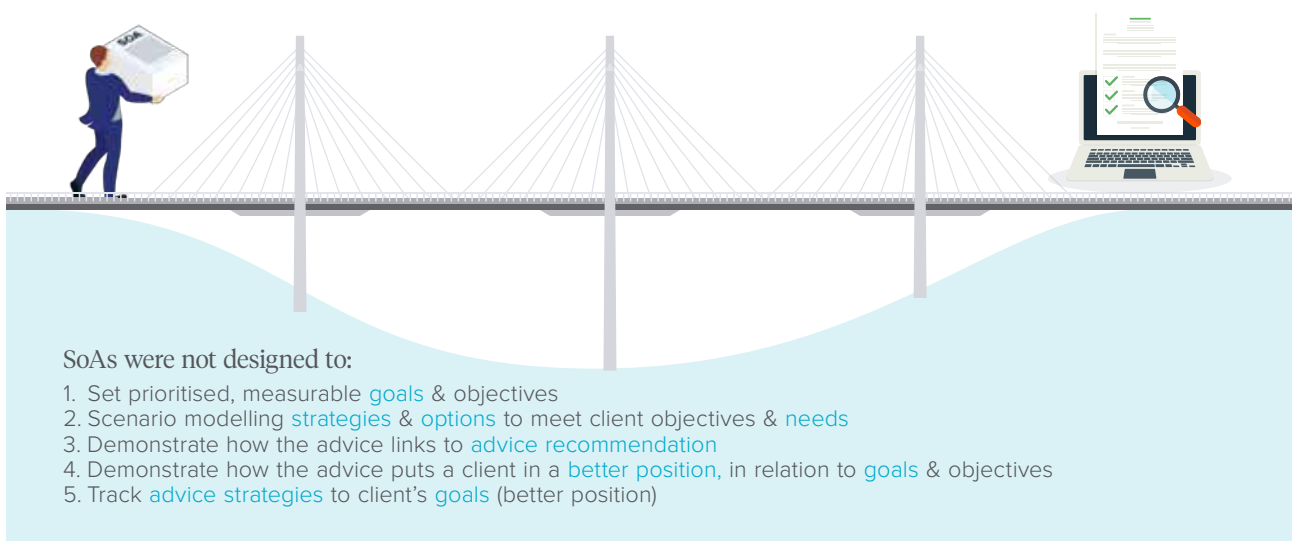
- **Have previous regulatory changes improved the quality of advice (for example the best interests duty and the safe harbour)?**

The legacy advice process of analog technology, time-consuming administration, compliance, and manually driven paper-based SoAs, has placed limitations on both an adviser's time and a licensee's ability to deliver timely, scalable, monitored, cost-effective, and efficient advice. This strain also impacts the adviser's ability to conform to today's consumers expectations and the role the financial adviser plays in their life.

I do not believe the above-mentioned regulatory changes have necessarily improved the quality of advice nor the client advice experience, in fact, the client experience is a major detractor, being clunky and paper-based, however it has instead provided improved guidelines to work within.

Advice is still paper-based, manual, static, untraceable, analog, and has many barriers to entry for consumers. It is also expensive and unattainable for much of the mass market, mainly due to the increased costs in operating as an adviser (education, compliance, licensing, no commissions etc). Reform has also resulted in fewer advisers available to service an ever-increasing consumer demand for financial advice.

Gap between advice & compliance.



- **What are the factors the Review should consider in deciding whether a measure has increased the quality of advice?**

Our technology has a measure for advisers - we track how many goals an adviser has helped their clients to achieve over their ongoing service period and the lifecycle with their adviser. I would like to see financial licensee and advisers measure their success by how many goals (desired outcomes) they helped their clients achieve, not funds under management (FUM) or funds under advice (FUA). We call this Goals Under Advice (GUA) or Goals Under Management (GUM).

Throughout years of our extensive research, we have taken action to work directly with consumers to understand what they want to experience from their financial advice experience. This research concluded that it is the intangible outcomes in which are most interested in; ie: the measure of achieving their goals, not outperforming markets by a percentage. The consumer places the main value around helping them toward achieving their retirement, buying their first home, paying off debt, or protecting their family as examples. Client goals have both intangible (client mindset & behaviours), and tangible success measures/outcomes including; goal amount, and goal time horizon.

For example, a retirement goal has a number of measures including a target time horizon (retirement age), target lump sum amount, income stream based on their desired lifestyle and/or target returns (IRR). These are all factors that can be tracked over time for a goal - we call this the goal achievability percentage measure (or goal probability calculation).

Smart technology can do this, however, it requires a shift in behaviour from the hands of financial advice industry to adopt this new way of providing advice, which is one that is far more aligned to consumers and regulatory obligations.

With friction held within the traditional advice process, there's an inability to scale, as well as a high cost to produce, which ultimately passes onto the consumer and we have a high market value set. Advice is unattainable for the mass market under this current model and consumer perception is that it is expensive.

With fewer advisers registered, and little coming through the professional education system, this industry cannot service this high demand for quality financial advice. I constantly hear advisers turning clients that can afford advice away, because they do not have enough capacity to handle demand. This is an economic disaster for the financial services that make up 9.4% of Australia's GDP, and a personal economic disaster for consumers with rising household debt levels and inflation, consumers have a desperate need to better manage their finances.

Affordable Financial Advice

- **What are the cost drivers of providing financial advice?**

In working with many advisers and licensees, we have witnessed an increase in the cost of advice. There are many statistics that exist within the industry on cost. The lack of technology innovation by incumbent financial planning software has certainly contributed to the backbone of the inefficiencies and costs built into the current traditional financial advice process. There has been no investment into solving the cost and inefficiency problems within the current advice process, especially pertaining to the admin cost. with additional compliance layers over the multiple reforms. Digitising advice and compliance obligations can solve the cost conundrum and it has taken the onus of the fintech start-up community to solve and address these problems for the industry.

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

Yes I believe this to be true. Our technology has already transformed the advice process, as the below infographic explains.

The areas in grey are the friction points that our technology has removed from the advice process, this has created efficiencies for comprehensive personal financial advice and reduced time and cost.



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

There has been a lack of engagement and support from regulators. After meeting ASIC previously and presenting our technology, which solves so many aspects of their imposed regulation guides for advisers, we've had little guidance or support from the body.

Our WealthMap platform innovation, introduces the Hybrid Advice model (or Hybrid Adviser). It is transforming the financial advice process by enabling advisers to explore their client's goals and future possibilities through a shared visual experience. Advisers can model client data (their baseline that is captured digitally) and clone scenarios (a combination of goals, strategies, products, and stress tests), and compare/benchmark each scenario to determine which scenario puts the client in a better position based on their goal achievability as the measurable outcome.

Once the scenario modelling is complete, you can benchmark scenarios with a client, the scenario can be selected to be recommended, and with a click of a button, produce an instant, digital SoA, which is delivered to the client's portal/app for MFA digital sign off/acceptance. This streamlines the entire end-to-end advice process and improves the client experience, where clients are part of the planning process and are educated along the way.

Benefits of our digital advice tech:

- Advice process that focuses on the client's: goals, advice strategies, and then products
- Live goals & strategy modelling - demonstrates how the adviser's advice puts their clients in a better position
- Goals-centric advice - links client goals to strategies & investments
- Goal achievability - shows clients how likely they can achieve their goals
- Product comparators - launch product comparators from within strategies
- Instant, digital SoA - digital SoA with digital peer review, full transparency and digital audit
- Financial Reports - generate & export financial statements
- Assumptions - robust actuarial modelling & economic scenario generation

For more information on our WealthMap go to:

[WealthMap Features](#)

Accessible Financial Advice

ASIC has noted that the top three areas consumers want advice on are investments (45%), retirement income planning (37%), and growing superannuation (31%).

Previous research has also highlights that many consumers prefer 'piece by piece' financial advice and tend to seek advice on 'event-based developments'.

Technology is also changing the accessibility of financial advice, like cash flow & budgeting. Fintech presents the opportunity to automate advice processes, improve information, increase consumer choice, and eliminate constraints imposed by distance.

A recent financial capability survey has shown that consumers express a strong preference for using digital financial products and services.

Across all ages, 85 percent of respondents agreed or strongly agreed that using online financial technology saves them time, and 68% would prefer to use financial technology over other channels to access financial services.

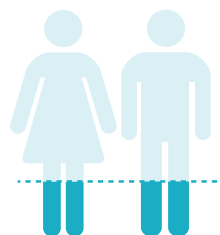
Digital advice refers to financial advice delivered through both a hybrid of human and technology, and one that does not require the direct involvement of an individual adviser.

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

Our own research study found that consumers simply cannot connect or engage with an SoA.

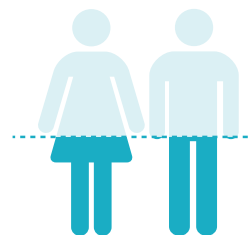
It found that 24% don't read their SoA, 43% are confused by the content and language, but proceeded with the advice because they trusted in their adviser. 45% of respondents wanted to be part of the planning process so they could understand their own personal circumstances and the strategies necessary to undertake.

Did not read their SOA document



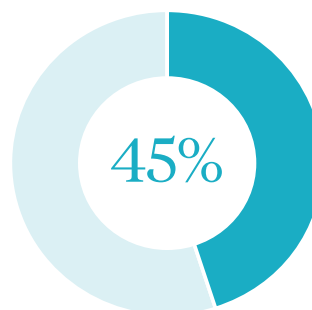
24%

Confused by the content & language



42%

Wanted to be involved in the planning process



It is clear people need financial advice. Though, we have a clear barrier in which advice is too complex, exclusionary of the client in the process, takes too long, is too expensive, and by nature is not delivered to the client in a way they are comfortable interacting - like via smartphone technology.

Gen X, Millennials, Gen Z want to consume financial advice through a combination of technology and human experience.

This is the space that financial planning needs to play - to deliver financial advice through smartphone apps, linking up their data and tracking advice to their life goals.

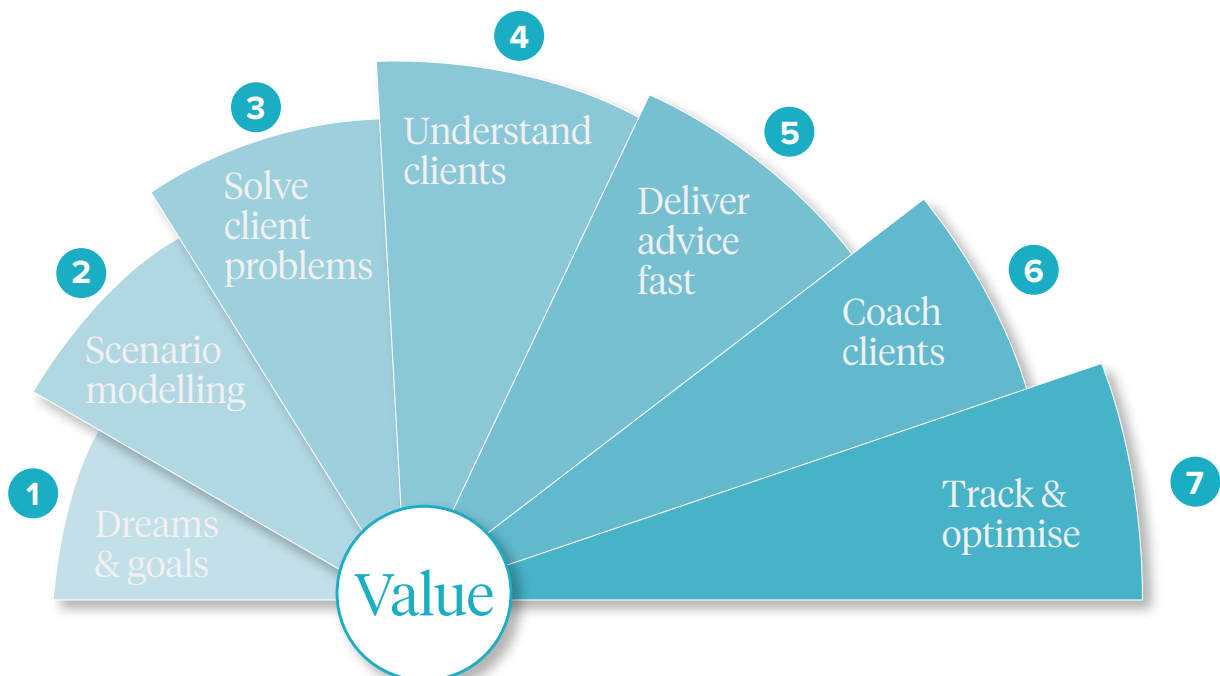
- **How could advice be more accessible?**

Advice can be more accessible to the consumer by challenging the traditional process of advice. By engaging with advice delivery through the means of a Hybrid and/or Digital Model, which I will elaborate upon further, the barrier for entry to the layman becomes lesser with financial advice becoming more affordable, less intimidating, and technologically accessible no matter the time or place.

- **Are there circumstances in which advice or certain types of advice could be provided other than by a financial adviser and, if so, what?**

With the progression of fintech, financial advice has the capability to be delivered without necessarily having an adviser present, however, a human adviser will still need to be there in the background to support a digital experience, especially when there are complexities around the client’s situation. As we see it, the onus of advice sits within the realm of the AFSL holder and with a digital advice technological framework, their advice could be distributed to clients via both ondemand via a self-service digital client experience or human adviser with digital tools via virtual interaction.

The below infographic demonstrates how advisers can deliver more value via technology (Hybrid).



1. Dreams & goals

Make exploring & prioritising client dreams into life goals - an inspiring & engaging experience

2. Scenario modelling

Live, real-time scenario modelling with clients - exploring their future possibilities to their goals achievability

3. Solve client problems

Solve client problems & demonstrate how your advice puts them in a better position via scenario tools

4. Understand clients

Understand client behaviours, motivations & communication styles via behaviour profiling

5. Deliver advice fast

Deliver an instant digital SOA to their smartphone

6. Coach clients

Coach clients through their advice journey & behaviours - keep them motivated & accountable

7. Track & optimise

Track & optimise your advice to client goals

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

Fintech solutions work as an enabler of efficient and affordable quality advice. These solutions function to support and enhance an adviser's traditional service. This is exemplary through the likes of digital SoA production, or a live, data driven financial plan.

Financial technology also enables transparency of fees and services to the client throughout the advice process. Through technology, the client and the adviser both have an increased ability to reference back through the preparation of advice, including access to the initial fact-find, refer to any scenarios that were modelled during the advice conversation, know instantly when an SoA was been issued & signed off, along with a capability to track the client's goals post-implementation.

This transparency supports the ease of auditing advice at any time, which is centrally accessible with time-date stamps.

If the industry were to see a future Royal Commission, an adviser could refer back to scenarios modelled, where the client's input is part of the advice conversation (a co-responsibility). Meaning they would also have instant access to the various scenarios modelled and the recommendation that put the client in a better position in relation to the client's goal achievability, the tangible outcomes they are seeking.

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

In nature, the regulatory landscape is incredibly complex to navigate, and in turn, extremely costly for any business to introduce and implement a new business offering.

Overall, history has seen a general lack of technology innovation in the financial advice industry. This, combined with a plethora of incumbent providers and licensees, of whom are ingrained with the 'old world' of doing things. This does make it challenging for new digital-first entrants to introduce new innovation to the market. It would take more support from regulatory bodies, government and industry to encourage new entrants to feel more welcomed and supported in the space.

Digital Advice

There is a clear underinvestment in innovative digital planning technology, with licensees still sticking within the legacy technology landscape, yet expecting different outcomes.

This has led to common challenges from licensees such as:

- Lack of visibility & accessibility to advice documents (lack of single & centralised advice records)
- Inability to track & monitor clients & advice within the advice process (lack of digital automation)
- Absence of an inspiring & digital client experience, in line with today's consumer expectations (via smartphone life apps)
- Inadequate scenario modelling to compare investments & risk in relation to goal achievability & objectives (best interests)
- Ineffective decision making
- Time & cost to deliver advice
- Lack of open API's

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

Yes, advisers are required to stay agile in many areas of their careers to continue to support their clientele - the required approach to AdviceTech is not dissimilar.

The belief that business success will be guaranteed due to a historical position in an industry is a trepidatious one, and may place restrictions on a business' relevancy in the long term.

Tech innovation offers many multi-faceted benefits for financial advice designed to:

- Drive efficiencies
- Automate repetitive tasks & data entry
- Improve client engagement
- Improve client meetings & advice conversation
- Provide quality predictive forecasting & modelling
- Provide transparency of services
- Respond proactively

The way advice businesses can make financial advice more accessible and affordable is through an advice process supported by smarter technology, which is aligned to what consumers are seeking from financial advice.

Tech innovation can genuinely reshape the financial advice industry. Contrary to historical misconceptions, technology in advice delivery does not mean impersonal service.

Instead, innovative technology enhances the advice process by offering the opportunity for a more personalised and tailored service. The long-standing debate between Robo adviser vs Human adviser in providing financial advice is moving aside thanks to the emergence of a third option, the Hybrid Adviser Model.

The Hybrid Adviser Model

This model offers digitally automated advice as both an adviser-led, client-centric, and digital experience. It shifts the old world of a “Do it for Me” advice model to a new world of a Hybrid “Do it with Me” model. This Hybrid Adviser Model supports the evolution of advice so advisers can provide more personalised and cost-effective advice at scale to better meet the needs of their clients.

In a Hybrid Adviser Model, the relationship between tech and Advisers is complementary. Each element supports the other to create a more robust, synergistic advice process for advisers and clients. The opportunity for advisers is to embrace this Hybrid Adviser Model and move from; reactive to proactive, manual to automated, from costly & time-consuming to scalable & efficient advice.

- **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?**

The modern consumer has an affinity for advice in ‘bite-sized chunks. The goal-oriented advice model helps to increase the digestibility for the consumer and allows them to have a better understanding of their financial trajectory, allowing them to maneuver their advice, a few goals at a time.

Working through finances through a wider lens is overwhelming, and it leaves consumers reluctant to peruse advice. Digital advice platforms enable the consumer to see their advice model on both a macro & micro level, so they can interact with these actions as a piece-by-piece, solve a problem or help hit a group of short-term or long-term goals methodology. Digital advice platforms enable the consumer to see their advice model on a macro level, and interact with these actions of advice by goal or problem.

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

The risks are no different between advice accessed on a digital platform and advice from the mouth of an adviser, as the advice itself is based on the AFSL holder’s advice - only delivered in a more efficient and progressive way.

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

Advice should be regulated consistently, no matter the platform it is presented on. The Hybrid Advice Model does not eliminate the role of the adviser completely from the process of giving advice. Instead, it engages technology as a tool by which to improve efficiency for the adviser and improve transparency for all involved in the process. As such, digital advice tools merely transpose the advice to another format or platform, meaning that the advice regulation should not change as the advice does not change, only the delivery mechanism.

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

Digital advice provides an opportunity to enhance the quality of advice through the interactivity, and robustness of the modelling capability. The advice itself has the capacity to reach a consumer in a way that aligns with their technological proclivities and preferred communication style, thus enabling advice to have more impact in the eyes of the consumer, without compromising the advice quality itself.

- **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)?**

AFSL holder functions as the responsible entity for advice. Technology providers bestow to them a framework to enter in their own parameters, their own assumptions, strategy wording, digital SoA template and APL’s and the like.

Technology providers should take on the onus of providing the tech framework, allowing them to tailor their advice offering to allow licensees to configure and set up their own advice suitability parameters, APL’s and assumptions - but to deliver advice via a new digital model.

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

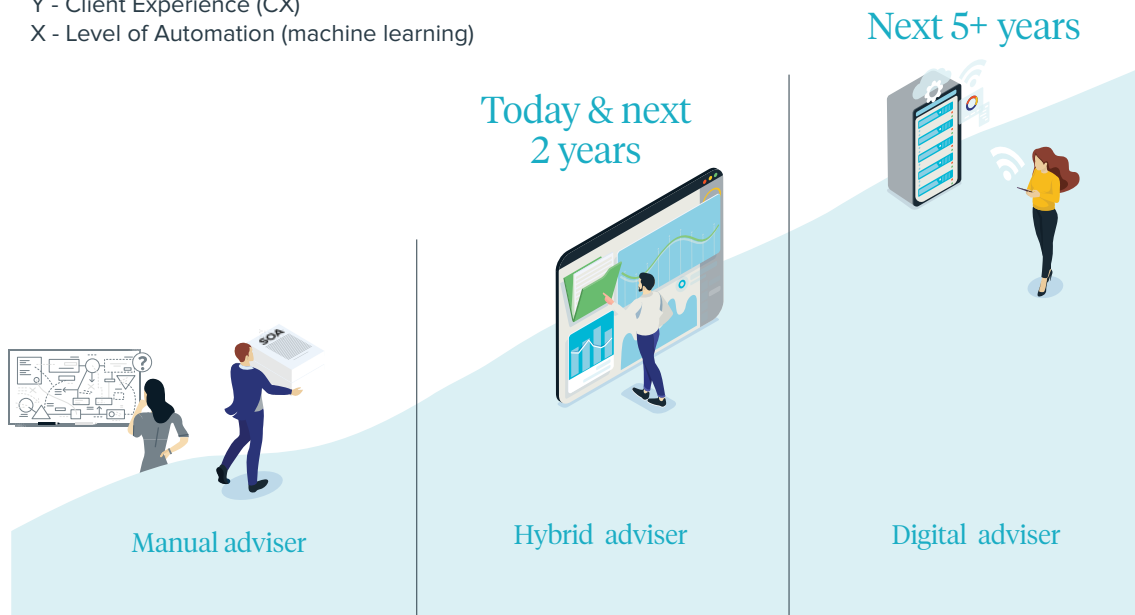
There are tools like the Advice Intelligence WealthMap, which has transformed the advice process into one that is more engaging for clients and efficient for advisers alike.

With digital, clients can now have a heightened capacity for understanding their adviser’s advice and how it improves their financial circumstances, as well as the outcomes they are seeking to achieve.

Role of CX & machine learning in financial advice

Y - Client Experience (CX)

X - Level of Automation (machine learning)



Level 1 Partially-autonomous

The client finds it difficult to be engaged in the advice process, with paper SOA’s, no engagement or collaboration tools.

Level 2 Semi-autonomous

Adviser & client can collaborate via an interactive financial plan with live investment & cash flow data through their advice platform and client smartphone & smartphone app

The engine learns to optimise simple advice strategies & goals based on client’s circumstances & data.

Level 3 More-autonomous

Clients can track their own financial plan via a highly engaging customer experience on their smartphone.

Clients have adviser support & guidance delivered via chat & virtual for more complex scenarios

Simple functions, financial advice strategies & investments are performed utilising machine optimisation & automation.

For more information

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