Quality Advice Review Submission

Authors	Peter Worn, Aron Satchell Joint Managing Director(s)	**Date**	30th May 2022.
Company	Finura Digital Pty Ltd ABN Trading as 'Finura'	**Address**	Level 21, 357 Collins Street Melbourne VIC 3000 Contact: 0431 658 377 Email:peter.worn@finuragroup.com
About Finura	Finura is an independent Wealth Technology Strategy Consulting Firm. We work with Advice Licensees, Product Manufacturers, Super Funds and FinTech's to optimise technology implementations and business model transformations. The deep advice and technology experience of our team, and our broad exposure across the industry places us well to understand the problems industry participants face in improving the quality of financial advice using technology. Our contribution to this review is focused only our areas impacting technology.		
Finura's advice technology thesis	Finura estimates over $700m pa. is spent on licensing and compliance activity of Australian financial advice and only $200m on advice technology annually. By 2023 approximately 15,000 advisers will be left to service an unadvised asset pool of $5.4trn. The supply gap needs to be addressed through technology innovation in advice, reduced licensing costs, and improved regulatory landscape for hybrid digital advice services. Globally, financial services spending in wealth technology is expected to be $21bn US in 2021, increasing to $24Bn in 2023*. Despite its disproportionately large asset pool, Australia only receives a fraction of this investment. The exit of the major banks from financial advice has left the major licensees (with the exception of AMP & Insignia) very capital constrained and unable to invest significantly in advice technology. The non-institutionally owned Top 5 ASX listed licensees (representing 20% of financial advisers) have a combined market capitalisation of $264m (as of this submission). This is dwarfed by the market cap's of the listed product manufacturing businesses. There is significant global interest in investing in Australian wealth management and supporting technology ecosystem. The lack of clarity and consistency in the regulation of advice has made Australia a less desirable place to invest/build technology. It is also unrealistic to expect innovation and technology investment to come from the under capitalised licensee market. *Source: Deloitte		

3.1 Quality Financial Advice	• What are the characteristics of quality advice for providers of advice?
	  ◦ It will (likely) place the client in an overall better position
	  ◦ Recommendations are specific, measurable and likely achievable
	  ◦ Demonstrates a deep understanding of the client and their objectives
	  ◦ Multiple scenarios are considered
	  ◦ The client understands the recommendations, expected benefits and any risks
	• What are the characteristics of quality advice for consumers?		

	• It aligns to their objectives • It will likely mean they are better off than the status quo (ie doing nothing) • The consumer understands the recommendations. • Consumer has received value for money. • Consumers are discouraged from investing in highly risky unregulated invest classes such as crypto, derivatives or speculative property related schemes. • What are the factors the Review should consider in deciding whether a measure has increased the quality of advice? • Has it resulted in improved consumer confidence as a whole? • Do consumers have a better understanding of what advice is and what they are 'buying' • Are there less industry complaints and compensation claims/payouts
3.2 Affordable Financial Advice	• What are the cost drivers of providing financial advice? • Capturing customer data in particular financial data. • Product comparison /research information. • Financial advice software. • Employee costs. • Licensing & Professional costs. • Advice process as defined by AFSL. • Advice Audit / Pre-vets • Business overheads. • How are these costs apportioned across meeting regulatory requirements, time spent with clients, staffing costs (including training), fixed costs (e.g. rent), professional indemnity insurance, software/technology? Finura's work with IFAs and licensees indicate that between 3-7% of overall costs are related to technology. • Could financial technology (fintech) reduce the cost of providing advice? Use of technology has been a key balancing factor in an environment of increased cost/time as a result of ongoing regulatory change. A lot of fintech has focused on managing such change rather than innovation to improve advice production efficiency. • Are there regulatory impediments to adopting technological solutions to assist in providing advice? A lack of consistency in interpreting regulations and industry standards, not helped by ASICs approach, has led to cautious licensee interpretation, arguably overkill in certain instances,

	which has made use of technology inconsistent and added to the configuration burden. A clearer and consistent approach would reduce configuration burden and make technology more readily accessible across the industry.
3.3 Accessible Financial Advice	• In what circumstances do people need financial advice but might not be seeking it? Potentially any lifestyle or financial change warrants seeking advice, from buying a house to getting a new job to the birth of a child. Yet people tend to think about getting advice when they come into money (e.g. inheritance) or approach retirement. The opportunity to seek advice is far broader, including the opportunity to educate/advise younger Australians who haven't yet accumulated assets. • Could financial advisers and consumers benefit from advisers using fintech solutions to assist with compliance and the preparation of advice? There is mutual benefit to both parties from using Fintech. For consumers, this can be the start of a simple advice journey or a way to provide an adviser with data digitally. Both of these are a potential gateway to more comprehensive advice. In the case of an adviser, tech is the only reliable way to produce advice efficiently whilst ensuring compliance elements are well catered for. This includes strategy modelling and product comparison, be it for existing or consideration of recommended alternatives. • What is preventing new entrants into the industry with innovative, digital-first business models? There is a high cost of customer acquisition – it is still challenging to get clients to take action with a digital only interface, some level of adviser interaction is required. Lack of capital/support from institutions to take risks on new advice models given the amount of regulatory scrutiny. Providers are yet to find a commercial model which does not rely on revenue share from a financial product. Australia's population relative to other markets is also a deterrent for overseas players.
4.1 Types of Advice	**Digital Advice** • Do you agree that digital advice can make financial advice more accessible and affordable? Digital advice can certainly be delivered at a lower price point and can reach a broader audience, than comprehensive advice delivered traditionally. Moreover, it can be the starting point of an advice journey with limited (scaled) or full (comprehensive) human interaction. The advice can then be delivered iteratively to build on the digital elements. A consumer could still use a self-serve digital approach as required into the future to augment human provided advice at various times. • 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? Single issue personal advice or where the client doesn't have the

	asset base to warrant the fees being charged (from a compliance perspective). • Are the risks for consumers different when they receive digital advice and when they receive it from a financial adviser? Most consumers seek advice with the intention of investing money, research by ASIC supports this. Despite risk profiling and investment time horizon considerations, consumers are always disappointed if not shocked when they lose money or fail to receive an expected rate of return. With a human adviser there is the ability to discuss this and hopefully convince the client to stay the course, rather than crystalise a loss. Much of an advisers role is stop investors panicking in volatile markets. The market correction and superfund withdrawals in the Covid-19 correction were good example of this. If the digital advice journey is designed well, the level of risk would not differ significantly. Building Best Interest Duty into the algorithm of a digital advice journey process could triage out the customer if their need cannot be met within the scope of advice. Additional controls built into the design process whereby the customer is confirming the information they are submitting is correct through multiple stages could also assist with the risk management. • Are you concerned that the quality of advice might be compromised by digital advice? Digital advice to date is fit for purpose – algorithmic capability to guide an investment recommendation aligned to risk profile and time horizon. However, what suits behind this may not be fit for purpose e.g. a model portfolio constructed by an unknown party. It is also important consumers appreciate the limitations of digital solutions, which do not take into account a consumers full financial situation or broader financial objectives. • In what ways can digital advice complement human-provided advice and when should it be a substitute? Smart digital solutions can cater for an advice journey that would support both instead of acting as a substitute. Whilst most advice journeys could be initiated via digital advice, the client could then be triaged to an adviser for more comprehensive advice which falls outside of the parameters of the scope identified in the digital advice journey. It is important that the advice process (digital or otherwise) drives the customer experience, not the regulations.
4.3 Conflicted Remuneration	• Has the ban affected other outcomes in the financial advice industry, such as the profitability of advice firms, the structure of advice firms and the cost of providing advice? Licensees and advisers will require capital and support to innovate their business models, invest in technology, and deliver new forms of digital advice. There may need to be consideration given to how advisers/licensees and technology/product providers can partner more effectively without creating issues with conflicted remuneration, or FASEA code of ethics.

4.5 Disclosure Requirements	• How much does the requirement to prepare a SOA contribute to the cost of advice? The SOA cost to produce an advice document (end to end) can range from $300 - $000,s. There are a number of variables that contribute to the cost. i) is outsourced to a 3rd party paraplanner? ii) is technology used or is it manual? iii) complexity of the advice. Finura has observed a direct correlation between the amount of money invested in technology systems and processes and SOA production efficiency. The investment in these systems is typically the responsibility of the licensee. There is also a high degree in variability amongst licensees in what should be included in an SoA, which impacts the above.