FINANCIAL PLANNING
ASSOCIATION of AUSTRALIA

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Select Committee on Financial Technology and Regulatory Technology
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

Email: FinTech.sen@aph.gov.au

RE: Select Committee on Financial Technology and Regulatory Technology

Dear Chair

The Financial Planning Association of Australia[1] (FPA) welcomes the opportunity to provide feedback to the Select Committee on Financial Technology and Regulatory Technology.

The FPA has spent the last three years encouraging members to rebuild and redesign their businesses to create efficiencies, reduce costs, and most importantly, improve client engagement with their businesses and financial advice services. Digital technology can be leveraged to make the completion of repetitive and predictable functions automated, leaving the people who work in the business to participate in high valued functions which their clients will better value. To this end, the FPA has created 3 reports and 2 tools to assist members understand their business processes, identify technology to enhance these processes, and integrate them into their businesses.

Whilst there are broader discussions on the use of FinTech in Australia, the FPA's interest is primarily in the interplay of FinTech and wealth management, which is often referred to as 'Advicetech' or 'Robo-advice'. In particular, FinTech presents many promising opportunities to innovate in the complex and heavily regulated field of financial planning. For example, the practice of providing financial advice through lengthy and dense paper documents is overdue for digital disruption. Our submission focuses on

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[1] The Financial Planning Association (FPA) has more than 14,000 members and affiliates of whom 11,000 are practising financial planners and 5,720 CFP professionals. The FPA has taken a leadership role in the financial planning profession in Australia and globally:
• Our first "policy pillar" is to act in the public interest at all times.
• In 2009 we announced a remuneration policy banning all commissions and conflicted remuneration on investments and superannuation for our members – years ahead of FOFA.
• We have an independent conduct review panel, Chaired by Dale Boucher, dealing with investigations and complaints against our members for breaches of our professional rules.
• The first financial planning professional body in the world to have a full suite of professional regulations incorporating a set of ethical principles, practice standards and professional conduct rules that explain and underpin professional financial planning practices. This is being exported to 26 member countries and the more than 175,570 CFP practitioners that make up the FPSB globally.
• We have built a curriculum with 18 Australian Universities for degrees in financial planning. Since 1st July 2013 all new members of the FPA have been required to hold, or be working towards, as a minimum, an approved undergraduate degree.
• CFP certification is the pre-eminent certification in financial planning globally. The educational requirements and standards to attain CFP standing are equal to other professional bodies, eg CPA Australia.
• We are recognised as a professional body by the Tax Practitioners Board.

how the development of Advicetech and Robo-advice can improve the access to financial advice for Australians and where the Government can provide further support for the growth of these digital advice services.

In saying this, the lessons learned by the FPA over the last three years are universal. There is no point building and supporting the development of FinTech in Australia if it is unable to be efficiently and effectively integrated into the business, or the provider fails shortly after purchase. Business in Australia on both sides of the FinTech equation can best be supported through tools and services which allow the required technology solution to be identified and integrated into the business. Failure to achieve this leads to wasted money and shiny tools being left of shelves unused, and a general feeling of buyers remorse. On the other hand, a properly supported FinTech sector will lead to increased efficiency, increased employment, and improve consumer outcomes across the whole Australian economy.

If you have any further questions, please don't hesitate to contact me at ben.marshan@fpa.com.au

Yours sincerely

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Financial Planning Association of Australia

Do current regulatory settings support the growth of local FinTech and RegTech companies in Australia?

Role of regulations: principles framework

As extrapolated from the European commission consultation paper[2] on FinTech, three general principles need to guide regulatory frameworks for FinTech firms:

1. Technological-neutrality
2. Proportionality
3. Market Integrity

The regulatory framework needs to be technology-neutral: the same activity should be subject to the same rules regardless of the technology used to deliver it. This ensures that regulation does not impede innovation or favour established technology and practices.

Nevertheless, regulation must also be applied in a proportionate manner, reflecting the business model, size, systemic significance, as well as the complexity and cross-border activity of the regulated entities. More proportionate rules will help promote competition and enhance the resilience of the financial system by safeguarding its diversity without compromising prudential and conduct of business objectives, such as financial stability, financial integrity, and consumer protection. To support innovation in financial services, it is important to ensure that this proportionality principle is applied, especially when authorising and supervising smaller start-ups.

Lastly, respondents to the consultation such as FCA were supportive of the principles and proposed a fourth principle of ensuring consumers protections remain at the forefront of any regulatory framework[3].

Given the importance of a consistent global approach to FinTech regulation, there might also be scope to promote a set of global principles. The FinTech community in Australia would benefit from supporting these global standards. Thus, the Senate inquiry can promote these standards in Australia, consider whether the current regime strikes the right balance between allowing for such cooperation, while sufficiently managing the additional risks it may introduce.

How can the Australian digital advice sector be supported to grow?

Mapping FinTech to financial planning process

The FPA has embarked on a journey to empower financial planners to adopt new FinTech solutions to improve their financial planning process. Integrating FinTech and robo-advice in their businesses can be confusing for financial planners. Our FPA white paper[4] highlights the significant benefits technology can play in the financial planning process, and why financial planners should be exploring options to make their financial planning process more efficient and more engaging for their clients. We have specifically mapped FinTech solutions to the financial planning process to demonstrate where technology can assist specific

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[2] European Commission, Directorate-General financial stability, financial services, and capital markets Union, 2017, *FinTech: A more competitive and innovative European financial sector*

[3] European Commission consultation: "FinTech: A More Competitive and Innovative European Financial Sector": The UK Financial Conduct Authority's response

[4] Mapping FinTech to the financial planning process, 2017, Financial Planning Association

parts of the financial planning business. Optimising the production of advice is only one of the mechanisms to providing more affordable advice for all Australians but also improving client engagement with their statement of advice being key to improving adoption of digital advice.

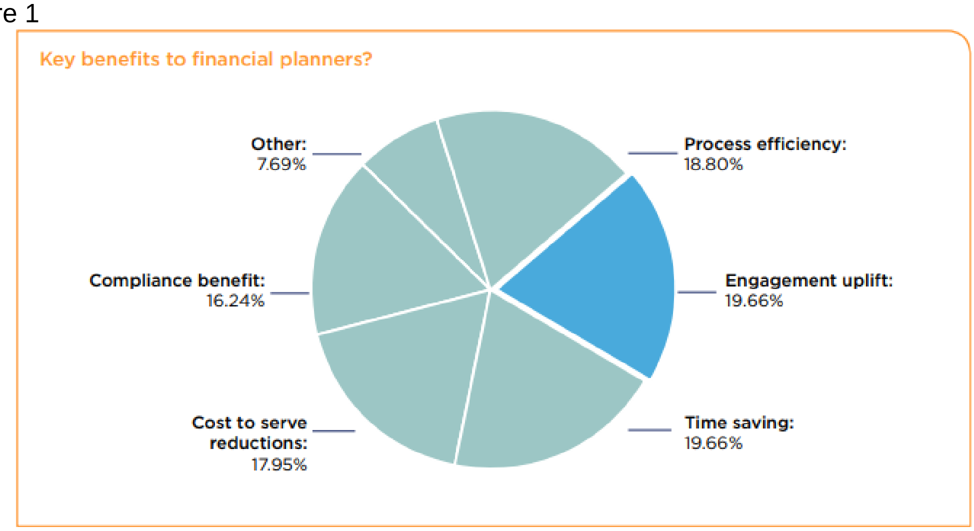
A learning from this report however was that while the idea of improving the efficiencies and cost effectiveness of financial planning businesses was a popular one, the feedback we received from members was that they were identifying a FinTech opportunity in their businesses, purchasing the service or tool, and were then unable to integrate it effectively. For this reason the FPA developed a second report - FPA FinTech Buyers Guide and Checklist[5] and toolkit for members. This has allowed members to ensure that once the need for a piece of technology is identified, it is not purchased and left sitting on the digital shelf unused.

The FPA believes this learning is an important one for the Government to consider when looking to support Australian businesses and the Australian FinTech community.

Employment

There is a strong perception that robo-advice will replace human financial planners. The FPA believes that financial planners will work hand-in-hand with robo-advice, and the benefits of FinTech will ultimately be passed down to consumers.

Figure 1



Mapping FinTech to the financial planning process: Why FinTech is not a threat, 2017, FPA white paper

During FPA's research into FinTech opportunities for financial planners, approximately 400 FinTech firms were asked which benefit, aligned to the 6 step financial planning process[6], would their FinTech product provide. Figure 1, can clearly illustrate a well-balanced array of benefits which will assist with financial planners in each area of their financial planning business. FinTech firms are not necessarily seeking to directly provide financial services, but rather offer regulated firms tools to improve their client service and

[5] FPA FinTech Buyers Guide and Checklist, 2018, Financial Planning Association

[6] How it works - The Financial Planning Process

operations to compete more effectively. These firms can help with functions such as: data analytics; digital claim handling; customer digital identification; and infrastructure services.

In developing the Mapping FinTech to the Financial Planning Process Report, the FPA benchmarked the time it takes to provide a piece of advice currently as 26 hours, and costing between $3,715 and $6,063 to produce. Embracing the use of FinTech in a financial planning business can reduce the time taken to product a piece of advice by 1 to 3 hours at each step, allowing for the production of advice in as little as 8 hours (mostly leaving face to face time with the client) and saving between $500-$1,000 at each step which significantly improves the affordability and profitability of advice provision. Unfortunately, many of these new tools don't integrate with each other and lead to a more inefficient and expensive advice process. Again, this is where the Government could support the use of universal compatibility of tools to support this time and economic benefit.

It is clear that the human factor is likely to remain an important element in the financial planning process, and the importance of personalised and adapted advice ,digital or otherwise, provided by people should not be underestimated. Millennials increasingly consult peers and media before acting on adviser recommendations; less than 10 percent of investment decisions are made alone[7]. Furthermore, 82% percent of millennials still value face-to-face meetings for advice[8]. On the other hand, older generations will have a higher preference for more traditional channels such as personal interactions. Hence, there are indications that future FinTech development will complement and not replace the personal interactions provided by financial planners for the next generation.

Education to increase digital and financial literacy

A related question is whether digital advice obviates the need for improved financial and digital literacy. Firstly, digital advice will inherently remain behind digital barriers requiring consumers to be knowledgeable at accessing and understanding digital functions. Secondly, digital advice services will require a basic foundation of financial literacy to compel them to seek further personal advice. Furthermore, while pre-retirees are seeking financial advice, a more digital advice world may inhibit these consumers from understanding financial advice. In contrast, millennials are adept at navigating a more digitally financial world provided by FinTechs, but financial literacy will remain a barrier for younger generations. These two factors, financial and digital literacy, both persuade how these two generations engage with financial advice. Thus, the adoption of digital advice and FinTech firms will greatly benefit from programs that improve financial and digital literacy of the average Australian consumer.

Fortunately, FinTech innovations are allowing for the digital delivery of statements of advice which can can double as education materials through the use of intertwining informative tutorials supported through entertaining animations, video, language translation and audio. By presenting financial information in a more engaging manner, clients are more likely to understand their financial situation, ultimately improving their financial literacy. Thus financial planners, through FinTech solutions, are well placed to address the issue of financial literacy.

The FPA recently conducted testing on paper based versus digital delivery of advice[9] as part of our Future of the SOA interactive guide[10]. The consumer feedback showed that consumers currently value the physical delivery of advice and will read their statement of advice four times in an effort to reduce their knowledge gap to their financial planner. However the use of digital SOA delivery allowed them to take

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[7] Dr. Kobler, Hauber. F, Ernst.B, 2015, *Millennials and wealth management Trends and challenges of the new clientele*, Deloitte

[8] Ibid.

[9] The Future of the SOA - Initial Client Feedback

[10] The Future of the SOA Interactive Guide

advantage of their particular learning preference and the interactive nature their SOA can have to significantly reduce the need to reread their advice. Watching videos, listening to audio, completing tests allowed them to quickly and easily engage and understand their advice, and made them more likely to seek further advice services and make referrals of friends and family to their financial planner. For this reason, it is again important that the government support and businesses embrace the use of FinTech in delivering financial services in Australia.

Support telecommunications infrastructure and security

Face-to-Face meetings with clients plays a pivotal role in formulating a working relationship between financial planners and their clients. This ongoing relationship with clients entails facilitating trust which assists financial planners with their code obligations such as ensuring their clients understand the advice, best interest duty, and the know-your-client processes. These obligations are at best addressed through facial and audio clues that are normally presented during their initial meetings. Video conferencing technology potentially allows financial planners to decipher facial cues that indicate a client's risk tolerance and level of understanding the advice. As client engagements become more digital, this complements the advancement of digital advice. Together these two changes will also help address geographical barriers to financial advice.

Can Australian regulators do more to support FinTech and RegTech companies to develop digital advice services?

The Australian Compliance Standard of an SOA

Different interpretations of what is required in advice documents have created thousands of individual templates, interpretations and left the profession fragmented and inconsistent. This inconsistency puts too much focus on compliance and less on client understanding.

A level of standardisation of SOAs championed by the regulator will allow FinTech, AdviceTech and RegTech providers to create technology that can assess advice as it is created and any alterations can be made before the advice is provided to clients.

The idea of standardisation around SOA templates and the framework of advice statements could also be considered. A set of standard SOA templates developed by the industry and promoted by ASIC would take a lot of pressure off compliance teams. Then, an increased focus on providing the best possible advice to clients through modern methods of communication will improve the clients' understanding of the advice. Research into the adoption of digital disclosure will compliment the ASIC regulatory guidance in facilitating online financial services disclosures[11].

Renaming general advice will enhance digital advice delivery

The notion of automated advice may be interpreted in different ways across consumers, regulators, and FinTechs. ASIC's report into consumer's understanding of general advice not only revealed consumers are not familiar with the concepts of general and personal advice, but only 53 percent of those surveyed correctly identified 'general' advice. Guidance for consumers to distinguish between 'tailored advice', 'guidance', and 'recommendations' will need to be developed to ensure consumers are not misguided, especially if Robo-advice becomes the norm. Furthermore, digital advice delivery is usually considered as

[11] ASIC Regulatory Guide 221:Facilitating digital financial services disclosures

‘general advice’ and any future concern of removing general advice will ultimately inhibit what digital advice can be provided. The government can ensure that the future delivery of digital advice remains available for the FinTech community to develop by supporting ASIC to rename general advice. ASIC has consumer tested and consulted stakeholders on potential new terms to rename general advice and the FPA will continue providing support in renaming the term. A change in terms would also enhance a consumer’s understanding of what information is presented to them from digital services and may prompt consumers to seek more personalised advice after receiving personal advice.