

Brooke Stewart  
Senior Analyst  
Financial Advisers  
Australian Securities and Investments Commission  
Email: [brooke.stewart@asic.gov.au](mailto:brooke.stewart@asic.gov.au)

Dear Brooke,

Please find my submission. I am happy to discuss my reasoning and solutions based on 29 years' experience and a firm belief that ASIC are vital to keep all participants in the Financial Services sphere, operating in a manner that is inclusive and fair to all Australians.

Digital advice has grown rapidly in Australia since 2014 and automated advice that jumps the gap between general and personal advice, can bring efficiencies, though it can and has caused upheaval, that if not properly monitored and checked, will cost the Federal Government Billions of dollars and throw millions of Australians into products that are designed to maximise product providers profits, while also reducing any responsibility back onto the product provider.

With many Financial and Insurance products being complex and difficult to understand, there is a reluctance by most Australians to attempt to learn more about the products being offered and this enables product developers and suppliers to exploit this knowledge gap and promote inferior financial and Insurance products, that can do more harm than good.

ASIC wants a level playing field in the advice industry, which is crucial for the long term viability of institutions, large and small.

Small start-ups can create disruption and put pressure on the bigger, established Corporations to improve their at times, bloated and cumbersome processes, though a real danger with an explosion of start-ups, is their combined efforts, can create long term negative impacts on the large institutions, the Government and the very people digital advice is meant to help.

My submission focuses on Digital / automated advice around Life Insurance, though there are correlations with advice around all Financial products that involve a decision and a purchase.

There is a misconception and a lot of confusion amongst the Australian public, around what is general or personal advice.

The reality is and for simplicity sake, the words “General Advice”, is really “General Information” and for any entity that promotes a product to entice a consumer to invest or to buy Insurance, especially Direct Product providers, they should be categorised as only providing limited advice, with clear, “plain English” disclaimers.

They should also be made to include rigorous training for staff around complying with the regulations, with continuous audit and checking to make sure of strict compliance and adherence to the rules.

Bearing in mind that the vast majority of advice is limited, this is where tight regulations must be set up, to stop Companies from exploiting loopholes that can be profitable to them, at the expense of the rest of Australia.

Improvements in automatic advice, has created an explosion of Direct Life Insurance entities, that are destabilising the foundations of a key pillar of our Financial System.

80% of Australians have a very basic understanding of financial matters, which makes them an easy target for product peddlers.

Life Insurance is an easy to understand concept, layered with complexity. Direct Product entities, have spent considerable resources on automated advice technology that enables them to promote inferior and disgraceful products that give Australians a false sense of security and if the need to claim arises, which nearly always leads to issues, the almost insignificant amount of money being argued about, is not the relevant issue.

**The real issue, is that claimant, who is a real person, can now be uninsurable for the rest of their lives.**

A 30 year old earning \$78,000 a year with 4% p.a. pay increases, will earn \$6,372,774.00 up to retirement age and if just one person, through illness or disability is prevented from working again, those lost millions, now become the responsibility of the Government. In other words, a contributing member of society who will have paid over a million dollars in Tax and distributed over 5 million dollars through the economy, has now become a non-contributing member of society that will cost millions of Tax payers dollars. Multiply this by Tens of Thousands of Australians and Treasury has a multi-billion dollar hole in its forward estimates.

The provision of digital financial advice to retail clients can be a bonus to uninsured people, though there has been many thousands of people who have been misled by the rampant promotion of short term policies, which has led to cancelations of long term cover, with potentially millions of dollars per person having been transferred from the responsibility of the private sector onto the responsibility of the Federal Government that Treasury and ASIC may not be aware of.

The good news is, it is a simple fix.

Most people are now aware of the Governments closing of Property Developer Sunset clauses, that enabled developers to rip off people who bought off the plan to lock in a price, only to find the developers tearing up the contract unless these innocent people paid tens of thousands of dollars more.

Direct Product providers are using automated advice processes to entice clients away who are not made aware that they have lost a multimillion dollar potential benefit, to be replaced by an amount of money that will run out within months if they go on claim.

The simple fix is to have a strict replacement regulation that forces Direct Advice, Robo advice or automated advice entities, to automatically include questions to ask about existing policy details and a statement explaining in plain English, the differences in policy benefits and contract definitions, which a client must acknowledge before the cancelation and new inferior policy can commence.

In answering the questions re; the list of proposals, my focus is based on sustainability of all entities, the Federal Government's ability to fairly regulate and to make the provision of digital Financial product advice to retail clients, an opportunity to enhance, not destroy other areas of advice, or put undue pressure on the Government and all Australians, from being given clear and concise options.

## **ASIC's List of Proposals and Questions**

**AI Q1** - The proposed guidance is helpful.

**Q2** - The proposed guidance in Section D will allow and assist digital advice providers to provide scaled advice, however there is insufficient regulations and rules that will enforce the regulations to make sure the scaled advice is in the best interests of clients.

The sad reality, is most Australians are unaware of their options, they lack the interest and sufficient knowledge required to determine if the Digital scaled advice is in their best interests, which leaves it open for digital advice providers to exploit loopholes in the rules, especially where their action, leads to a negative re-action across the entire industry and leads to a weakening of the financial system.

For example, Direct Product providers have automated their processes to be able to bypass the best interest duty when selling their products.

They slip through the cracks by offering General “advice”, which Australians mistakenly believe is advice, namely because it is called, “advice”.

Direct Product Providers are responsible for most of the lapses for advised Life Insurance that does fit into the best interest duty, because they take advantage of the words “General”, and “scaled” advice and quite frankly, mislead the Australian population.

**BI Q1** - Yes and No. Yes it must be compulsory ‘today’ that a digital advice licensee have a qualified responsible manager. These Companies can cause multi millions of dollars in future losses and costs to all Australians and the Government, if allowed to operate without a responsible manager.

No to a minimum training and competence standard.

**Q2** - Yes to (a) and (b)

**Q3** - The same standards should apply across the industry.

**Q4** – It should not be 6 months, it should be **today** for existing AFS licensees to comply and if no responsible manager is available – have one brought into the Licensee on a contract basis to immediately vet the processes and protocols.

**Q5** - There will be additional costs. That is the price of doing Business.

Airlines must follow strict safety and maintenance processes if they want to keep their licences. All digital advice licensees must comply, or be denied the right to operate until they provide best interest duties and processes.

**CI Q1** – ASIC should be giving clear instructions, as well as detailed guidance, after reviewing existing algorithms. Private licensees may exploit loopholes if they find some that puts them at an advantage over competitors. Complex algorithms must be designed and monitored regularly to adjust to this constantly evolving framework.

**Q2** - IT is expensive and a substantial “time” input to implement, though proper guidance with clear instructions from ASIC is crucial, as Australia cannot afford for an explosion of more digital advice licensees running rampant, which the Direct Life Product providers are doing now.

**Q3** – No: Digital Advice Licensees can cause potentially Billions of dollars in future losses and Millions of Australians can be affected. It is too important to let these or any Licensee have self-certification.

**Q4** – Yes: In every circumstance and minimum Quarterly.

I have worked 29 years in the Financial Services Industry and have experience with all facets of this area. My son is also a Director, has 10 years’ experience and has extensive knowledge around digital advice.

As much as we all jump up and down about regulations, without proper, clear and concise rules that must be followed, there will be multibillion dollar losses across every sector of Australia, that quite frankly, Australia cannot afford.

I look forward to hearing from you if you have any questions or require clarification on anything.

Regards

Jeremy Wright