

16 May 2016

Ms Brooke Stewart
Senior Analyst
Financial Advisers
Australian Securities and Investments Commission

By email: brooke.stewart@asic.gov.au

Dear Brooke

Subject: Submission – Consultation Paper 254

We are pleased to provide this submission in response to ASIC's *Consultation Paper 254 Regulating digital financial product advice* ("CP 254").

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In this submission, numbering of our responses refers to the numbering in CP 254. Our detailed feedback on the list of proposals and questions in CP 254 is set out in the table in the Appendix to this letter. Overall, we consider that the proposed guidance will be valuable to providers and potential providers of digital advice products.

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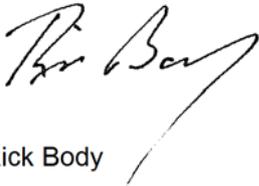
Monitoring and testing of underlying algorithms

In our view, it is critical that ASIC's guidance strikes the right balance between encouraging product innovation in this space and ensuring consumers are appropriately protected. In particular, given the potential variability in the models being built and used, we do not support such detailed prescription, particularly in terms of the monitoring and testing of the underlying algorithms, that it might inappropriately restrict product development. In our view, periodic certification that the algorithms have been appropriately monitored and tested represents an appropriate compromise, provided that the person providing the certification is suitably qualified and experienced. In this regard, we do not consider that either the existing minimum requirements under *Regulatory Guide 146 Licensing: Training of financial product advisers* ("RG 146") or the new minimum training and competence standards for advisers are sufficient for this purpose.

In our view, digital advice algorithms involving long term cash flow projections and life expectancy should be required to be subject to formal actuarial certification. Even where the algorithms do not involve these factors, certification should be required to be obtained from an appropriately qualified and experienced professional, either in-house or from a third party. Such professionals would include, for example, members of the Actuaries Institute or the CFA Institute.

We would be pleased to discuss this letter with ASIC or provide any further information needed. Please do not hesitate to contact us should you wish to do so.

Yours sincerely



Rick Body

Digital Solutions Leader, Australia



Brad Jeffrey

Director, Superannuation Services

List of proposals	List of questions seeking responses	Feedback
<p>A1 We propose to release draft Regulatory Guide 000 Providing digital financial product advice to retail clients (RG 000) to assist digital advice providers in complying with the law.</p>	<p>A1Q1 Overall, is the proposed guidance helpful? If not, why not?</p>	<p>In general we consider the proposed guidance will be valuable and will assist in ensuring these tools are developed and overseen appropriately. We consider that clear guidance is necessary to minimise the risk that these new tools become merely another mechanism for a product provider to recommend their products to consumers.</p>
	<p>A1Q2 Is our proposed guidance (in Section D of the draft regulatory guide) helpful in assisting digital advice providers to provide scaled advice that is in the best interests of clients? If not, why not?</p>	<p>We consider that the proposed guidance in section D will generally be helpful to providers.</p>
<p>B1 We propose to require that a digital advice licensee has at least one responsible manager who meets the minimum training and competence standards for advisers.</p> <p>To assist existing AFS licensees that may not have a responsible manager who meets these standards, we propose a transition period of six months.</p>	<p>B1Q1 Do you agree with this proposal? Please provide supporting arguments.</p>	<p>We agree that digital advice should be signed off by an individual with suitable qualifications and experience. As discussed in the body of this submission, we do not consider that either the existing minimum requirements under RG 146 or the new minimum training and competence standards for advisers are sufficient for this purpose. In particular, digital advice solutions involving complex long term cash flow projections and life expectancy should be required to be subject to actuarial certification.</p>
	<p>B1Q2 Do you agree that, if the changes proposed in the Corporations Amendment (Professional Standards of Financial Advisers) Bill 2015 become law, at least one responsible manager should:</p> <p>(a) meet the new higher training and competence standards (i.e. have a degree or equivalent, pass an exam, complete a professional year and undertake continuing professional development); and</p>	<p>This question relates to much wider issues than solely the provision of digital advice solutions.</p> <p>In general, we support moves to increase the education and professional standards of financial advisers. However, as noted above we do not consider that the new training requirements will be sufficient for the purposes of signing off complex algorithms and advice provided by some digital advice providers.</p>

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	(b) comply with the proposed ethical standards (i.e. comply with a code of ethics and be covered by an approved compliance scheme)?	
	B1Q3 Are there any aspects of the proposed higher training and competence standards in the Corporations Amendment (Professional Standards of Financial Advisers) Bill 2015 that should not apply to at least one responsible manager of a digital advice licensee?	See above
	B1Q4 Is the proposed transition period of six months long enough for existing AFS licensees to comply with the requirement to have a responsible manager who meets the minimum training and competence standards? If not, why not?	See above
	B1Q5 Please provide feedback on any costs or benefits that may apply to your business under the proposal.	See above
C1 We propose to issue guidance on the ways in which we think digital advice licensees should monitor and test the algorithms underpinning the digital advice being provided.	C1Q1 Do you think we should be more detailed in our guidance on the ways in which we think digital advice licensees should monitor and test algorithms? If so, what additional guidance should we provide?	Given the potential variability in the models being built and used, we do not support detailed technical prescription of the monitoring and testing of the underlying algorithms. Instead, as discussed above we consider that providers should be required to obtain advice and/or certification from a suitably qualified professional. We would, however, support guidance in terms of general principles such as the frequency of testing.
	C1Q2 Please provide feedback on any costs or savings to your business as a result of this proposed guidance.	We expect that additional costs would be incurred, but they are not envisioned to be significant as providers should

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		<p>already be monitoring and testing their algorithms and seeking appropriate advice in relation to the more complex issues that their digital advice solutions may be seeking to address.</p>
	<p>C1Q3 Do you think we should introduce a self-certification requirement which would require digital advice licensees to certify that their algorithms have been adequately monitored and tested?</p>	<p>As noted above, we consider that providers should be required to obtain certification from a suitably qualified and experienced professional. If the provider does not have such a professional in-house, then third party certification should be required to be obtained.</p>
	<p>C1Q4 Should we require independent third-party monitoring and testing of algorithms? If so, in what circumstances would this be warranted?</p>	<p>See above</p>