Attn: Brooke Stewart

Senior Analyst, Financial Advisers

Australian Securities and Investments Commission

email: brooke.stewart@asic.gov.au

Subject: CP 254 submission from investfit

Dear Brooke,

Thank you for the opportunity to comment on ASIC's consultation paper 254: Regulating digital financial product advice. For good order we'd like to disclose that investfit is not an AFSL holder, nor do we operate under an AFSL. It has been determined that Investfit provides advice limited to general classes of investments and is exempt under the relief for calculators. However, a number of issues raised in CP 254 are pertinent to us. We specialise in risk profiling and so feel that it may be helpful to pass on our thoughts on this subject matter, but recognise that this may be out of scope for the time being. Please find our submission:

Proposal A1

i. The first stage of triage should include clear communication with the individual about what questions the digital tool is going to answer for them, any limitations of the scaled advice being offered (such as not taking debt into account).

   Additionally, this stage should also advise the user that in the case that advice is based on average expected investment returns, there is approximately a 50% probability that the projected outcomes may not be met. THIS IS IMPORTANT and typically not understood by the public, nor many advisers. Without this warning, many individuals will give a heavy reliance of advice that may be significantly overstating outcomes. This risk exists in the current human based advice.

ii. The use of decision trade off charts is a good way to educate an individual about the consequences of decisions made to today on long term goals. For example, how changing retirement age impact income in retirement OR if the individual requires a certain income in retirement, what is the impact on any financial legacy? Again these trade off charts should be produced at higher levels of certainty than 50%, and the level of certainty used should be communicated to the individual. (eg 50%, 70%, 80% 90% etc).

iii. Regarding adequacy of compensation arrangements (RG 000.76), one idea to remediate clients for loss as a result of defective advice could be an industry-wide insurance scheme where providers of digital advice that is "Robo by nature" pay a levy on any fee for service

provided by a digital platform. This could be fees for an automated SoA or fees for online investment management services. A robust self-insured industry might help early stage digital advice platforms who otherwise would find it hard to get adequate cover plus add confidence to the consumers of advice. This could be in the interest of all, including Govt. I wonder about the ability for early stage digital advice businesses to get adequate PI or other Technology Insurance cover to meet a class action.

Proposal B1

Agree broadly that providers of digital financial advice should be appropriately qualified. However, recognise that experience should also be taken into account. For example, should an individual who has been involved in investment markets for 30 years, who's knowledge would clearly contribute to the advice industry, be required to sit an exam? The responsible manager requirement should be flexible enough so as to not dissuade suitable individuals who would be valuable to the community.

Proposal C1

Agree with the level of detail with the following supporting comments. The aim is to ensure the financial routines are fit for purpose and that the digital advice tool does what it's supposed to do.

i. Providers of digital advice should be able to demonstrate to the regulator capabilities and Quality Assurance when translating investment and financial routines in source code to the final language that generates the advice in a digital environment. Digital advice providers should be able to point to experts in both financial routines and programming disciplines. It may be prudent for the provider to have the financial routines reviewed externally and deemed fit for purpose. There should not be a requirement to externally review the final language if capabilities and QA standards are demonstrated.

ii. Providers of digital advice should be able to demonstrate the ability to change source code with regulatory changes and then deploy these changes in a timely manner.

Risk Profiling

There is a problem in the advice industry with the way an individual's risk tolerance is measured. The problem stems from an industry wide perception that questionnaires are subjective and lead to skewed outcomes placing a bulk of the population in overly conservative investment strategies. This ultimately leads to sub optimal outcomes for the individual.

The other problem arises from the actual exercise of taking a client through the risk profile questionnaire because many advisors find this to be a disengagement point. So advisors tend not to place a lot of focus or value in the questionnaire often resulting in some advisors opting to do it right

at the end of the process after advice is produced making the exercise pointless and serving only to tick a box.

We believe strongly that advice must be based on outcomes and certainty of these outcomes. Risk is the likelihood that the client doesn't achieve their expected outcomes… not their discomfort with short term movements in investment markets.

Risk must be explained to the individual objectively and the best way of doing this for an unsophisticated investor (the bulk of the working population) is by showing it diagrammatically. In essence we want to show the impact that short term bumps in financial markets have on the client's long term goals, and the certainty of these outcomes. Only then can the client make an objective decision.

An objective risk profiling example: After taking into account a client's financial circumstances an advisor presents the client with a series of alternative portfolios and asks the client which they prefer but all portfolios have an equal level of certainty of realising their outcomes:

Portfolio 1: Conservative

expected retirement income = $35,000 and portfolio value can go up or down by 5%

Portfolio 2: Balanced

expected retirement income = $45,000 and portfolio value can go up or down by 10%

Portfolio 3: Growth

expected retirement income = $55,000 and portfolio value can go up or down by 25%

Portfolio 3 is in for a bumpier ride. However, the chance of receiving $55,000 a year in retirement income is exactly the same as the chance of a $35,000 a year retirement income for Portfolio 1. This is giving the individual information about how their tolerance for the bumps impacts their long term goal.

We believe this message is key to reshaping the way advice is delivered and moving away from an advice model that purely serves to placate fear of short term market movements. Until this message becomes the widely accepted approach, many Australians will experience retirement funding shortfall early and greater reliance on the age pension.

Yours sincerely

Ed de Salis

CEO, investfit