map my plan

Brooke Stewart
Senior Analyst
Financial Advisers
Australian Securities and Investments Commission

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

Dear Brooke,

RE: Consultation paper 254: Regulating digital financial product advice

Map My Plan Pty Ltd (MMP) is a digital advice licensee, providing automated financial advice, without product recommendations, to retail users.

We appreciate the opportunity to comment and let us know if you've got any questions.

<signed>

Paul Feeney
Founder, MMP

A Background to the proposals

A1Q1: Overall, is the proposed guidance helpful? If not, why not?

Response: It's helpful but we have the following thoughts:

1. Labelling all advice as 'financial product advice' perpetuates the myth that adult Australians cannot obtain financial advice without a product recommendation (often referred to as 'product flogging').

   It's been our experience that this deters retail clients from pursuing automated advice and would appreciate if the proposals widened the descriptions and explanations to include a digital adviser like MMP who doesn't flog products, and only provides general class of product information.

   We're also wondering if there's any additional guidance you'd provide on that basis.

2. Because Responsible Managers are not required to be involved in the daily operations of a digital advice business, a better safeguard could be for the 'human resource' to be an authorised representative of the digital advice licensee (DAL). This is in keeping with traditional (human) advice practices, but might increase compliance costs for the DAL.

3. Some examples to guide digital advisers like MMP on their best interests duty when providing scaled advice would be helpful. For example, a sample statement of advice

would be appreciated, or confirmation that you're expecting the same thing a traditional (human) adviser would prepare. The product and portfolio driven examples don't provide enough guidance for a 'pure advice, no product recommendation' digital advice licensee like MMP.

A1Q2: Is our proposed guidance (in Section D of the draft RG) helpful in assisting digital advice providers to provide scaled advice that is in the best interests of clients? If not, why not?

Response: Yes.

It's been our experience however, that the programming language used in constructing automated advice is different from that which is applied to filtering, or triage, output such as a statement of advice.

We've also found that asking too many questions deters retail clients from pursuing automated advice, leaving incomplete details.

The proposal to contact a client or filter them out of the model, appears to defeat key attractions of automated advice and conflicts with traditional (human) financial planning business practices of mining client bases for possible revenue or sold on to other practices for the same purpose.

So digital advice remains a viable, low-cost offering to retail clients, we suggest the level of triage and human contact be kept to a minimum.

B Complying with the organisational competence obligation

B1Q1: Do you agree with this proposal? Please provide supporting arguments

Response: Agree.

The financial advice industry should have a minimum training and competence standard at an acceptable level. This will hopefully raise professional standards and in turn, increase consumer confidence in the industry and provide a fair playing field for both human and digital advisers.

The proposals appear consistent with current requirements and are neatly timed to encompass changes proposed in the Bill (referred to below). The lengthy consultation process has provided adequate preparation time for digital advice licensees to make necessary arrangements, regardless of scale.

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:

a) **Meet the new higher training and competence standards**

   Response: Agree. It's consistent with requirements and proposed legislation to lift professional, ethical and education standards of financial advisers.

b) **Comply with the proposed ethical standards**

Response: Agree. Ethical standards should be applied to ensure a minimum level accountability.

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?

Response: No. We agree with the rationale.

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?

Response: Agree. A sufficient consultation process has been provided.

B1Q5: Please provide feedback on any costs or benefits that may apply to your business under the proposal.

Response: The requirement adds an annual expense of $18,000 to $30,000 per annum which we could otherwise put towards research and development such as more advice models and greater triage in advice output.

C Monitoring and testing digital advice algorithms

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?

Response: This proposal applies a higher standard than what currently applies to traditional (human) advisers.

Most traditional advisers rely on the use of algorithms to deliver financial product advice to clients. There shouldn't be any difference between digital and traditional advisers on this point.

The proposal to be able to control, monitor and reconstruct any changes to algorithms over a seven-year timeframe is overkill and would be unfair if applied solely to digital advisers.

We submit that the provision of the output, ie the statement of advice, is adequate. That's what a traditional adviser would provide.

C1Q2: Please provide feedback on any costs or savings to your business as a result of this proposed guidance

Response: We do not believe these proposals present any cost savings.

The following annual costs might be incurred:

- Likely increase in responsible manager fees: 10% added to a responsible managers consultation fee.
- Engage a third party to certify algorithms. Estimate annual cost (if required by an actuary): $30,000 per annum.

- Additional programming costs of $30,000
- Additional site storage and maintenance costs of $15,000 to control, monitor and reconstruct 7 years of algorithms and output for all users.
- Increased 'human adviser' cost to test algorithms and advice output $50,000.

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?

Response: No. If the law is technology neutral, it should be applied to both traditional and digital advisers or not at all.

We submit that self-certification would increase the administrative and financial burden on digital advisers without providing sufficient benefit to retail clients and are therefore not in favour of the proposal.

C1Q4: Should we require independent third-party monitoring and testing of algorithms? If so, in what circumstances would this be warranted?

Response: No. It may be warranted in the context of portfolio construction, and should not be applied broadly to digital advisers.

D Regulatory and financial impact

a) The likely compliance costs

If the current proposals for monitoring and testing digital advice algorithms proceed, we anticipate a significant increase in costs (please refer section C for details).

Aside from those and ongoing regulatory obligations, our likely operating costs for compliance are:
- Responsible manager. Estimate annual cost:
- Insurance premium costs:
- Dispute resolution costs:
- Proposed higher training and competence standards (join an approved scheme): Costs not known at this time.
- Authorised representative (aka digital advice provider) continuing professional development costs: $1,600+ pa

b) The likely effect on competition

As the number of digital advisers grows, access to funding remains difficult, despite increased investing by individuals and corporates.

Increased compliance costs (particularly those proposed in section C) are likely to make it harder for start-ups to remain low-cost and viable offering to retail clients - which the financial planning advice market clearly needs.

c) Other impacts, costs and benefits

Greater clarity is required by digital advice providers as to their associations and interests with other product and service providers.

Feedback from users suggest they are unaware or cynical of such arrangements (particularly advertising). We propose that upfront disclosure should be required on digital advice websites so a user can make informed decisions about the advice adds to their hip pocket, not the digital advisers.

We’ve nothing else to add.