

16 May 2016

Ms. Brooke Stewart
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Financial Advisers
Australian Securities and Investments Commission
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Dear Ms Stewart,
Adviser Network's response to ASIC's Consultation Paper 254 Regulating digital financial product advice

This letter and accompanying Annexure A sets out Adviser Network's response to ASIC's Consultation Paper 254: Regulating digital financial product advice.

Adviser Network background

Adviser Network is a diversified financial services company privately owned by Lonsec Fiscal Holdings Pty Ltd (LFH), with no institutional ownership or product alignment. Adviser Network was established in 2011 to help solve the emerging advice gap in industry funds. Adviser Network has diversified its focus into digital advice with the solution called Super Blueprint.

Adviser Network believes that "everyone matters" and deserves the right to have access to information, insights and advice on their terms. To realise our vision, it is our view that financial planning needs to become more accessible, by using technology for the benefit of consumers.

Super Blueprint

Super Blueprint was launched in 2009 and today is available to around 1.5 million Australians through 7 superannuation funds. Our vision is to make digital advice as personal and compelling as a social network through focussing on the customer and making it easier for them to access advice.

Super Blueprint is a purpose built intra fund advice solution, helping users to obtain advice on their superannuation funds. It provides advice tailored to the specific areas of their corporate or industry fund as follows:

- Retirement adequacy;
- Investment, including risk profiling;
- Insurance; and
- Contributions

Upon completion of entering information into Super Blueprint, members can download a Limited Statement of Advice for them to implement. The scope of the advice is strictly contained to meet both the intra fund and collective charging parameters outlined in ASIC RG244 and ASIC Class Order 09/210.

Market for digital advice

Adviser Network advocates and supports the provision of traditional face to face advice, however, with the growth in people's superannuation balances and the complexity of people's lives, we believe advice needs to be easier to access. Digital advice can assist in helping Australians' have a better life after retirement, by;

- helping those who lack confidence to seek face to face advice, to build their competence in superannuation;
- Making advice accessible to Australians who cannot afford the fees to engage a financial adviser face to face; and
- Allowing Australians whose current circumstances do not require complex advice, to still to receive advice.

Super Blueprint is aimed to assist that consumers that need advice but their circumstances do not match the offers of many financial advisers. We believe that section of the market, is the intra fund advice market. By making intra fund advice more accessible to Australians, digital advice is supporting financial advice to concentrate on more complex areas, such as, retirement planning.

Adviser Network response to Consultation Paper 254

In responding to CP254, Adviser Network has outlined the entity's views to each specific question outlined in the ASIC consultation paper. We have approached our response from the following perspectives;

- Consumers need to be able to build and maintain trust in digital advice and should feel comfortable that there is regulatory guidance protecting them;
- Implementing regulatory guidance, needs to balance the consumer need to have the same safe guards as traditional advice and also be mindful of the infancy of digital advice;
- Regulatory guidance needs to be drafted in such a way, so as to not inhibit further innovation.

Adviser Network is an active participant in both the traditional face to face space and in the developing digital advice area and believe they can co-exist to produce better advice outcomes of Australians. ASIC CP 254 is a great start to the development of workable guidelines for businesses like Adviser Network for digital advice and we look forward to working with ASIC in the implementation of these guidelines and building a competitive digital advice market.

Yours sincerely



Duncan McPherson
Chief Executive Officer
Adviser Network

**Annexure A - Adviser Network's response to ASIC Consultation Paper 254:
Regulating digital financial product advice**

| Proposal | Question | Adviser Network's response |
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| A1Q1 | Overall, is the proposed guidance helpful? If not, why not? | Overall, Adviser Network is of the view that the proposed guidelines are helpful. However, we consider that it would be desirable for ASIC to ensure that the regulatory guide is developed with the view to monitoring the future development and use of digital advice. The current focus appears to be largely on “robo advice” culminating in the sale of product (in many cases an Exchange Traded Fund). Adviser Network believes that the current proposed regulatory guidance should be expanded to be more encompassing of broader digital solutions that provide advice on areas such as intra fund advice and retirement planning. Regulation should be broad enough to be applied to all forms of digital advice, regardless of scope and outcome. Encouraging innovation through clear guidelines will help ensure that there are common guidelines for all. We would like this guide to also encompass solutions that are advice related, including intra fund advice and retirement planning. |
| A1Q2 | Is our proposed guidance (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? | Given that the proposed guidance refers back to ASIC RG 175 and ASIC RG 244, we believe that the guidance is sufficient and supports the principle that people who seek to engage digital advice, are afforded the same protection as traditional face to face financial advice. That is, irrespective of whether advice is received in the traditional face to face manner from a financial adviser, or whether the advice is generated by a digital algorithm, clients are afforded the same protections under the financial services law. |
| B1Q1 | Do you agree with this proposal? Please provide supporting arguments. | Adviser Network generally agrees with the proposal, in that we consider it appropriate that the majority of existing Responsible Manager guidelines outlined in ASIC RG 105 should continue to apply. |

Notwithstanding, Adviser Network is of the view that Section C of ASIC RG 105 should be reviewed in the context of providing digital advice.

Given the specific nature of digital advice through its scoping and algorithm based solutions, we believe that for the Responsible Manager to demonstrate their knowledge and skills, they must comply with options 3 and 4; compliance with options 1, 2 and 5, not being sufficient. Options 1,2 and 5 do not require any specific financial planning knowledge, whereas options 3 and 4 require some training in the discipline of financial planning. Our reasoning is:

- Many digital advice firms are small startups and do not have the depth of financial planning knowledge required to make informed decisions about the clients' "best interests" in the context of financial advice;
- Options 1, 2 and 5 do not inform the Responsible Manager of the relevant industry specific decisions in providing financial advice. Without the narrowing of the Responsible Manager options to 2 and 3, a risk arises where Responsible Managers have business training but lacks specific financial planning knowledge. This is essential when they are ultimately responsible for the provision of advice.

By adopting more refined knowledge and skills requirements, Adviser Network believes this puts the onus on digital advice providers to ensure that they have people within the business that have actual financial advice capabilities and not just general business or technology disciplines.

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| <p>B1Q2</p> | <p>Do you agree that, if the changes proposed in the Corporations Amendment (Professional Standards of Financial Advisers) Bill 2015 become law, at least one of the responsible managers should;</p> <p>a) meet the new higher training and competence standards; and</p> <p>b) comply with the proposed ethical standards?</p> | <p>Adviser Network supports the elevation of the minimum education requirements in the provision of financial advice:</p> <p>a) We have some concerns that the requirements outlined in this area do not reflect the current education and training requirements for Responsible Managers outlined in ASIC RG 105 and clarity is required in relation to this issue. We believe that Responsible Managers needing to have the qualifications and memberships relevant to the responsible oversight of digital advice is essential; this includes the requirements contained within those obligations;</p> <p>b) Adviser Network supports any requirement for Responsible Managers to comply with the proposed ethical standards.</p> |
| <p>B1Q3</p> | <p>Are there any aspects of the proposed higher education training and competence standards in the Corporations Amendments Bill 2015 that should not apply to at least one responsible manager of a digital advice licensee?</p> | <p>Broadly Adviser Network supports the higher education and competence standards that are proposed.</p> |
| <p>B1Q4</p> | <p>Is the proposed transition period of 6 months long enough for existing AFS licensees to comply with the requirements to have a responsible manager who meets the minimum training and competence standards? If not, why not?</p> | <p>Adviser Network believes that 6 months is sufficient for all other requirements to be transitioned, as outlined in B1Q1.</p> |

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| <p>B1Q5</p> | <p>Please provide feedback on any costs or benefits that may apply to your business under the proposal?</p> | <p>Should the proposed changes be implemented, the benefits and costs to Adviser Network would be;</p> <p>Benefits:</p> <ul style="list-style-type: none"> • Our Responsible Managers already meet the existing requirements, pending clarity on the transitional arrangements regarding education. • Confidence in our business model and client outcomes based on our collective knowledge and existing experience. <p>Costs:</p> <ul style="list-style-type: none"> • Should the transitional arrangement impose bridging education requirements, that will divert our attention and slow down the delivery of digital advice solutions to consumers. • Increased compliance burden. |
| <p>C1Q1</p> | <p>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?</p> | <p>Adviser Network believes that the guidance provided is sufficient. It is important to provide adequate guidance for businesses to make an informed judgement and decisions regarding resourcing and testing.</p> |
| <p>C1Q2</p> | <p>Please provide feedback on any costs or savings to your business as a result of this proposed guideline?</p> | <p>Adviser Network has reviewed our solution, <i>Super Blueprint</i>, in the context of greater oversight by regulators, so we do not see many additional costs given that we have already implemented many initiatives that support the draft regulations. The costs we have already incurred include:</p> <ul style="list-style-type: none"> • Engaging a specialist third party actuary to review and certify our algorithms. |

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| | | <ul style="list-style-type: none"> • Engaging an external legal firm to review the advice aspect of Super Blueprint and certifying its adherence to the relevant regulatory guidance. • Implementation of the Compliance Committee to oversee all aspects of advice under Adviser Network’s license including the results of the two reviews outlined above. <p>It should be noted that the cost of external reviews and certification are in the vicinity of \$10,000 each; we have now built this into our annual budgets to ensure users have confidence of Super Blueprint’s compliance. This could be a significant cost for a startup business.</p> <p>We do not envisage operating cost savings, as a result of the proposed guidelines. However, we do anticipate there to be advantages to building more confidence in digital advice as a result of the proposed guidelines.</p> |
| <p>C1Q3</p> | <p>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>Adviser Network supports any measure that builds confidence and reliability into digital advice, however, we believe the guidelines need to be careful in creating a vastly different set of rules to normal licensing and financial advice responsibilities.</p> <p>We believe all digital advice licensees must be able to provide documentary evidence of their processes and testing, to meet their annual obligations under the guidelines, should they be requested. The licensee should take responsibility for its business processes for digital financial advice, as it would for traditional financial advice.</p> |

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| C1Q4 | Should we require independent third party monitoring and testing of algorithms? If so, in what circumstances would this be warranted? | <p>As outlined in C1Q4, we believe we should try and replicate the existing financial advice framework and pass the decisions on how to comply, back to the business. While Adviser Network is only a small business and we have engaged third parties to review and test our financial advice digital solutions, we do not think the guidelines should be as prescriptive as to require independent third party monitoring.</p> <p>Some businesses that will participate in the digital financial advice business will be large and diversified enough to insource both the development and the review of digital financial advice solutions, but such organisations should be held to the same standard as other smaller organisations.</p> <p>As Responsible Managers, we have a responsibility to ensure that whenever our AFS license is used to provide financial advice, it is carried out within the requirements of Corporation Act 2001 (Cth.) and consumer expectations. In executing their responsibilities, Responsible Managers should be able to choose the method through which they comply with law and regulation and understanding the implications of audits and reviews.</p> |
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