ASIC Regtech Initiatives 2019

Financial Advice Problem Statement

Background

ASIC believes there is an opportunity for stakeholders to influence the development and use of regulatory technology (regtech) to respond to conduct concerns in the financial services industry.[1]

Australia has the potential to be a world leader in developing and using regtech to respond to these concerns.

The possibilities of artificial intelligence and machine learning in a regulatory context are being discussed by many financial services organisations. In some cases, these technologies are being planned and implemented. As such, it is fundamental for ASIC to understand how we can promote the adoption of such technologies to deliver better outcomes for consumers of financial services.

ASIC received funding in 2018–19 to expand its existing collaborative work with stakeholders on the application of regtech. With this additional funding in 2018–19 and 2019–20, ASIC has planned a series of regtech initiatives to promote the application of regtech to deliver better regulatory compliance and consumer outcomes. These initiatives will also inform ASIC and other regulators in their adoption of regtech for supervisory purposes.

Advice businesses, licensees, regulators, auditors and individual advice providers all have an interest in effective monitoring, supervision and delivery of high-quality financial advice to clients.

ASIC has planned this regtech initiative on financial advice to explore the potential of regtech to deliver on this shared objective.

[1] Examples of regtech includes applications of machine learning, big data analytics and natural language processing.

Problem Statement

ASIC invites interested stakeholders to publicly submit examples of regtech proposals and solutions that can analyse the contents of a financial advice client file.

Demonstrators in this regtech initiative are encouraged to develop and showcase methodologies that can help determine features and characteristics of the financial advice documents in a client file.

ASIC is open to demonstrators including the use of public or third-party data in their regtech solutions.

We will provide demonstrators with a sample dataset of 20 synthetic client files, with a supporting dataset including 'ground truth' data with various features, characteristics and data points relating to the client files.

The focus of this initiative is on the application of regtech and showcasing potential regtech solutions to analysing a dataset of client files.

Potential metrics and features have been outlined in this document. Key components to solving this problem are to:

1. **Identify and extract key information. This includes (but is not limited to):**
    a. types of financial products or asset classes where investment recommendations were made
    b. the client's goals and objectives
    c. asset values, income, financial returns
    d. upfront and ongoing cost of advice
2. **Analyse client files and building indicators relating to risk factors, advice quality, the value and usefulness of advice, for example, by:**
    a. building rules and logic using key information extracted from client files
    b. developing statistical and quantitative metrics using the content or metadata of client files (some potential metrics are described in the last section of this document)
    c. using other methodologies such as supervised or unsupervised machine learning techniques.

The ASIC-provided sample of 20 client files will be synthetic data in .docx format. This dataset must be used as a part of the solution.

Additionally, ASIC encourages demonstrators to supply and use any other relevant third-party data useful as a part of their proposals to ASIC.

Potential Metrics and Features

The metrics below may be applicable, depending on the client file, specific document or the structure of a specific Statement of Advice. Different combinations of these, or other metrics, could be applied:

1. **Realised or projected financial returns/benefits from taking up advice recommendations**
    a. This may require extraction of data from table, charts or images.
2. **Whether the client's goals and objectives were met**
    a. Can the goals and objectives be identified (e.g. using discrete categories or themes)?
    b. Can it be determined whether these were addressed by advice recommendations?
3. **Cost of advice**
    a. This can be represented as an absolute cost or a percentage fee (or both) depending on the financial product; it can be up-front for specific services or ongoing.
4. **Insurance and superannuation**
    a. Insurance affordability is and its impact on funding source is considered, e.g. super balance or personal cash flow.
    b. Insurance policy or super switching being recommended. Where these are recommended, the cost vs benefit of this is:
        (i) considered and included in the client file
        (ii) accurate and clearly articulated.
5. **Templated vs non-templated text**
    a. Can templated/standard information (e.g. generic financial product and performance information, disclaimers, etc.) be identified using text analytics and natural language processing?
    b. Can it be determined whether this templated information is relevant to the advice (e.g. disclaimers about products not in the advice recommendation, other unnecessary information)?
    c. Is it likely (or not) to contribute to more complete and transparent advice?
6. **Document length and linguistic complexity**
    a. Linguistic complexity above or below a certain threshold; or inconsistent linguistic complexity throughout a document/across specific paragraphs could be useful features that correlate with the quality of advice.

b. Document length, including features such as the proportion of a document that is of a certain type (tabular, image/graph, text of a certain linguistic complexity) could also be useful features.

7. **Advisers' basis or reasoning for a product recommendation**
    a. Identify and extract text segments linked to specific recommendations (or specific client goals/product types)?
8. **Consistency in asset classes, financial products, client objectives, or other themes across documents in a client file**
    a. Using a machine learning or rules-based approach to identify themes or categories covered by a set of documents for a specific client and calculate the similarity or difference between the content of each document.

As an example, the following links contain a part of ASIC Regulatory Guide 90 and contain an example SOA for Scaled Advice to a new customer (i.e. personal advice that is limited in scope).

Target Outcomes

ASIC's target outcomes for this regtech initiative are to:

- Demonstrate how technology may be applied to client files and Statements of Advice to help improve regulatory compliance and advice outcomes for consumers.
- Identify opportunities and challenges of using regtech to improve the quality of financial advice and outcomes for advice clients.
- Increase awareness and understanding among industry of the current capability and future potential of regtech tools in their application to financial advice.
- Identify options for next steps by ASIC and stakeholders to continue to promote the use of regtech to promote better financial advice outcomes for consumers.

Event Structure and Registration

ASIC is hosting a symposium on Thursday 22 August in Sydney.

The symposium will include demonstrations from approximately 10 demonstrators, panel discussions and opportunities for engagement by attendees.

ASIC encourages participation from advice businesses, regtech providers, consultancies, researchers and fintech startups.

Demonstrators are encouraged to apply innovative approaches – both in terms of technology and the development of indicators relating to financial advice.

We encourage collaboration between advice businesses, regtech providers, researchers, other event Demonstrators and ASIC subject matter experts.

ASIC also encourages interested stakeholders to attend as observers and engage in the symposium.

We expect the symposium to be oversubscribed for attendance and will manage attendance for maximum diversity.

We intend to record and live-stream the symposium to maximise knowledge sharing including for those who are not able to attend.

Please see ASIC's regtech webpage for event details, registration details and sample datasets.

Register your interest here as either an observer or demonstrator.