



**ASIC**  
Australian Securities &  
Investments Commission

# Regtech Financial Advice Files: Demo and Symposium

22 August 2019 Sydney



‘When you think about it, there is a need for organisations to have the right technology to deliver good outcomes, which is where **regtech** comes in. Using the right data and the right analytics to see where the problems might be and **respond to the those problems.**’

John Price, ASIC Commissioner, 4 May 2019



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# Innovative Technology





# ASIC's Regtech Initiatives

- There is an opportunity to **influence** the **use of** regulation technology (**regtech**) to respond to conduct concerns of the financial services industry, and to speed progress to making Australia a world leader in its development and use - including through supervisory technology at ASIC.
- With the increasing use of artificial intelligence (AI) and machine learning (ML), it is fundamental to understand how regulators can support the adoption of use of these technologies. In this light, ASIC received federal government funding to initiate ASIC's work in the regtech space, greenlighting several major projects each in FY2018-19 and FY2019-20.
- ASIC is designing regtech initiative projects to promote the **development and utility of regtech solutions** by financial services organisations to deliver and better, regulatory compliance and outcomes for consumers, positioning Australia as a leader in regtech.

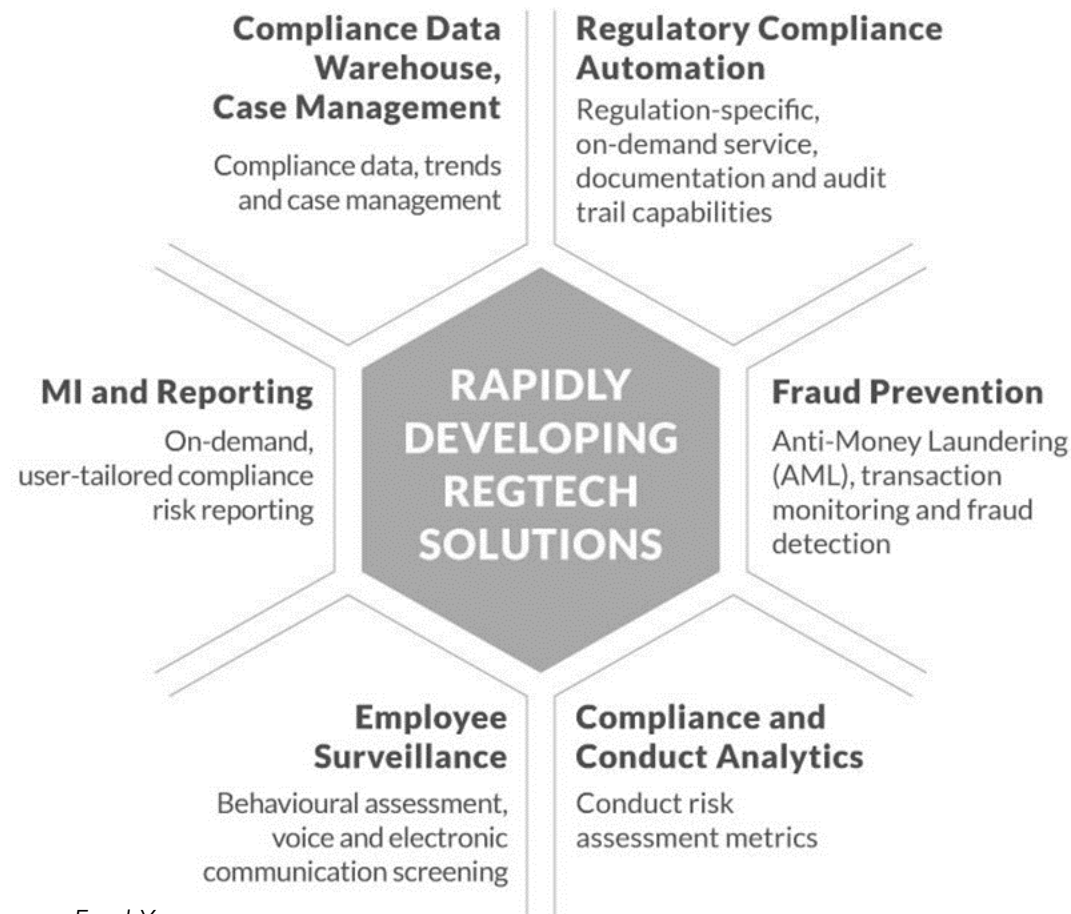
# Potential Technology Options

Building on a foundation of digitisation, automation, data science/AI and user interfaces, methodologies and technologies can include:

- Text analysis (rule-based algorithms, NLP)
- ML / AI / statistics
- Automation systems
- Workflow systems

Showcase innovative technology:

- With your own product
- Build your own application
- Deliver presentations / ideas / proofs of concept



Source: Ernst Young

# Financial Advice



# Why Financial Advice?

## Higher standard across Financial Advice (stakeholder collaboration trial)

Advice businesses, licensees, regulators, auditors and individual advice providers all have an interest in effective monitoring, supervision and compliant financial advice to consumers.

ASIC is exploring the use of technology to contribute to solving this problem and help **improve** both **regulatory compliance** as well as the **standard** of advice provided to consumers.



Monitoring



Supervision



Delivery





# Why Financial Advice?

We seek to:

- increase the awareness and understanding amongst industry of the current state and future potential of regtech applied to financial advice.
- demonstrate **how technology can be used** to assist in the provision of compliant financial advice.
- identify the opportunities and challenges of using **advanced technology** and other regtech approaches **to improving compliance standards** of advice and outcomes for advice clients.

# Problem Statement and Outcomes



Problem Statement:

**Provide regtech solutions to analyse the contents of a financial advice client file to identify indicators of compliant advice.**

Quality Indicators:

- Regulatory compliance
- Risk metrics





# Key Components

## Identify and extract key information such as:

- types of financial products or asset classes where investment recommendations were made
- the client's goals and objectives
- asset values, income, financial returns and/or
- upfront and ongoing cost of advice

## Assess indicators of compliant financial advice by:

- building rules and logic using key information extracted from client files
- developing statistical and quantitative metrics using the content or metadata of client files and/or
- using other methodologies such as supervised or unsupervised machine learning techniques



# Target Outcomes

ASIC's target outcomes are to:

- **Demonstrate how technology** can be used to help in determining the level of risk and regulatory compliance of financial advice based on a sample of client files in different formats provided by ASIC and any wider sample of client files or other related client profile and transactional data obtained independently by demonstrators
- **Identify opportunities and challenges** of using regtech to identify, monitor and analyse financial advice files and related client profile and transactional data and thereby outcomes for clients
- **Increase awareness and understanding** amongst industry of the current capability and future potential of regtech tools in their application to monitor financial advice files for indicators of compliance
- **Identify options** for next steps by ASIC and stakeholders to continue to promote the use of regtech to monitoring and analysing financial advice files

# The Data



# Dataset

ASIC will provide to Demonstrators a [dataset](#)\* of synthetic financial advice client files:

- approx. 20 client files across 60 documents
- various template formats, and .docx file format

This files will be synthetic and have been made for the purposes of the event only (to manage privacy concerns).

Demonstrators will be expected to use the ASIC dataset as a minimum and public information such as ASIC regulatory guides.

Demonstrators are encouraged to use other relevant data (e.g. third party, public or own data, financial product knowledge or information or advice transactional related).

The dataset can be downloaded from [here](#).\* ASIC's dataset has been compiled for illustrative purposes only and is not intended for assessing compliance.

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\*Username: Regtech.Demonstrators

Password: `]pF'kCp8Q

Navigate to top-left-hand corner, and then follow:

**Folders > Shared > Regtech Financial Advice > Financial Advice Dataset.zip (45.6 MB)**

# Synthetic Financial Advice Files

The document types will include:

- file notes from meetings with the client
- a 'fact find' document completed by the client and
- a Statement of Advice document completed by the adviser





# Data Guidelines





# Legislation and Regulatory Guidance

For the purpose of this exercise, Demonstrators should be informed by requirements that apply to the financial advice products and services as detailed in relevant legislation and regulatory guidance including:

[ASIC RG175 Licensing: Financial product advisers - Conduct and disclosure](#)

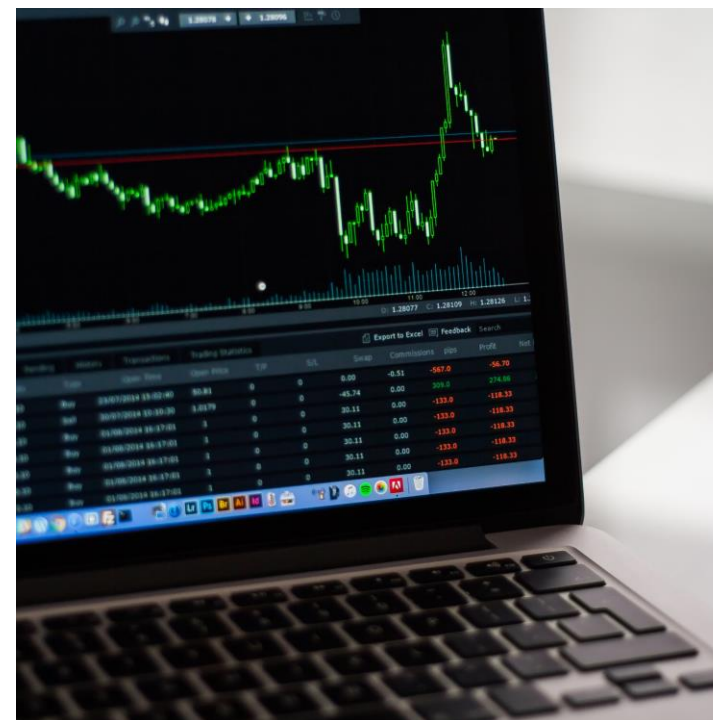
[ASIC REP 515 Financial advice: Review of how large institutions oversee their advisers](#)

[ASIC Regulatory Guide 90 Example Statement of Advice: Scaled advice for a new customer \(RG 90\)](#)

# Potential Compliance Risks

Set out below are some potential risk indicators. Different combinations of these, or other compliance risks could be applied to help describe the standard of compliant advice reflected in the client files.

- For product replacement advice, the risk that the Statement of Advice (SoA) does not include the requisite information required by legislation (having regard to relevant circumstances)
- The risk that the client's goals & objectives are not clearly stated in the SoA
- For scaled advice (that is, any advice that is not 'Full Service'), the scope of advice is not appropriate having regard to the clients relevant circumstances
- The risk that warnings required by legislation are not included in the SoA
- For combined superannuation and insurance advice, the risk that recommendations do not reflect the clients relevant circumstances for both elements of the advice
- The risk that alternative strategy is not being considered
- The compliance risks related to fees and costs, for example inadequate disclosure of premiums
- The risk that clear and concise projections are not included in the SoA





# Other Features

Other technology features that could be considered in addition to compliance risks:

## **Realised or projected financial returns / benefits from taking up advice recommendations**

- this may require extraction of data from tables, charts or images

## **Whether the client's goals and objectives were met**

- can the goals and objectives be identified (eg. using discrete categories or themes)
- can it be determined whether the goals and objectives were addressed by the advice recommendations

## **Cost of advice**

- identification of the cost of advice that 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

## **Variation of templates**

- can templated/standard information (eg. generic financial product and performance information and disclaimers) be identified using text analytics and natural language processing
- can it be determined whether this templated information is relevant to the advice (eg. disclaimers about products not in the advice recommendation, other unnecessary information)
- can the technology extract consistent information in various document templates



# Other Features: Continued

## Document length and linguistic complexity

- can the linguistic complexity above or below a certain threshold (or inconsistent linguistic complexity throughout a document/across specific paragraphs) be identified – these could be useful features that correlate with the compliance standard of advice
- Can the 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) be identified – these could also be useful features

## The adviser's basis or reasoning for a product recommendation

- Identification and extraction of text segments linked to specific recommendations (or specific client goals/product types)

## Consistency in asset classes, financial products, client objectives, or other themes across documents in a client file

- Identification of themes covered by a set of documents for a specific client, and calculate the similarity or difference between the content of each document

# Evaluation Criteria





# Evaluation Criteria

The submissions will be evaluated according to the following high-level evaluation criteria:

- i. addresses the [Target Outcomes](#) listed in the [Problem Statement](#)
- ii. the technology is demonstrated on the sample data provided by ASIC, possibly including:
  - extraction of key data to support identification of potential compliance risks
  - identification of files which contain indicators of potential compliance risks
- iii. the nature of any application of technology on some other set of data identified and collected by the participant will be rated more favourably
- iv. the technology's potential for scalability and broad applicability can be demonstrated
- v. the demonstrator exhibits an innovative application of technology
- vi. the demonstrator exhibits how the technology assist decision making by firms



# Evaluation Criteria

- Model performance and accuracy is not considered explicitly as part of the criteria, however demonstrators should consider including a performance and quality assessment of their test results in their submissions.
- ASIC is interested in reviewing submissions from a broad range of participants including but not limited to: start-ups, academics, financial institutions, professional services firms and Australian and international businesses. Thus, although all evaluation criteria will be considered, submissions that rate favourably on only some of the above criteria will be considered to present at the event.



# Detailed Rubric

Evaluation Criteria	Details
i. Addresses the Target Outcomes listed in the Problem Statement	<ul style="list-style-type: none"><li>• Addresses the broad intention of the problem statement</li><li>• Addresses specific metrics articulated in problem statement document and the Data Guidelines section of this slide deck</li><li>• Addresses specific metrics based on public ASIC guidance or other industry insights</li></ul>
ii. The technology is demonstrated on the sample data provided by ASIC	<ul style="list-style-type: none"><li>• ASIC sample data used in results presentation</li><li>• Evidence provided that technology and modelling approach is effective and insightful for multiple types of client files</li></ul>
iii. The technology is demonstrated on other data identified and collected by the participant	<ul style="list-style-type: none"><li>• Other datasets used in results presentation</li><li>• Demonstration of technology to (i) identify compliance risks, (ii) address different variations of templates, (iii) identify themes covered by a set of documents for a specific client and (iv) extract information from various formats, e.g. tables, images</li></ul>

# Detailed Rubric

Evaluation Criteria	Details
iv. The technology's potential for scalability and broad applicability can be demonstrated	<ul style="list-style-type: none"><li>• The submission demonstrates or describes how the product could analyse large samples with variations in template and structure</li><li>• The submission can be exhibited to be broadly applied across industry</li></ul>
v. The demonstrator exhibits an innovative application of technology	<ul style="list-style-type: none"><li>• Application of technology is novel and innovative</li><li>• Cutting edge machine learning technologies are used to solve the problem</li><li>• Standard machine learning technologies are applied in a creative or an efficient and effective way</li></ul>
vi. The demonstrator exhibits how the technology assist decision making by firms	<ul style="list-style-type: none"><li>• Outputs lead to clear and actionable insights</li><li>• There is a visual element in the presentation of the technology's outputs or results</li><li>• Potential for business value, better compliance, and / or better consumer outcomes</li></ul>

# Submissions and Selection





# Submission Form

Submissions selected to demonstrate at the event will:

1. present a variety of approaches to address the problem statement that:
  - a. use ASIC's sample dataset as a minimum
  - b. could have broad applicability in the financial advice and wealth management sectors
2. apply innovation:
  - a. in terms of technology
  - b. the assessment of financial advice for the identification of advice compliance key risk indicators

# Submission Form

*Submissions should be presented in a format that is interpretable to reviewers from a broad range of technical and non-technical backgrounds.*

Demonstrators' final submissions will be [submitted online via a required cover sheet](#)

Submissions are **due by midnight AEST Sunday 11 August 2019** and all submissions will be reviewed by an ASIC panel.

Sample  
Submission  
Form

## Introduction

ASIC looks forward to reviewing your submission for the Financial Advice Files Regtech Event scheduled on Thursday 22 August 2019 in Sydney.

Please complete this online cover form to submit your demonstration submission, completing all of the fields to qualify for selection to demonstrate at the symposium.

All submissions will be reviewed by an ASIC panel.

Submissions will be selected to demonstrate at the event that :

1. present a variety of approaches to address the problem statement that
  - use ASIC's sample dataset as a minimum; and
  - could have broad applicability in the retail credit, insurance and banking sectors
2. apply innovation:
  - in terms of technology
  - the assessment of advertising quality and risk
  - regulatory compliance assessments

Submissions are due by midnight AEST Sunday 11 August 2019.

### ► Related Information

#### 1. Professional Details

Company Name (Required)

Company Website (Required)

Contact Name (Required)

Contact Email (Required)

Contact Number

#### 2. Submission Details

Briefly describe your technological solution: (Required)



# Demonstrator Selection Process

- All submissions to demonstrate will be reviewed by an ASIC panel with experience in business, financial advice, data analytics and regtech applications.
- Submissions meeting the evaluation criteria will be considered for their innovative approach.
- Demonstrators will be selected exhibiting diversity in industry, technology, solutions.
- All submissions will be showcased on a bulletin board (unless you say so).
- No correspondence will be entered into on panel decisions.



# Demonstrator Selection Process

[Submit your solutions](#) by midnight (AEST) Sunday 11 August *(no late submissions considered)*

- All submissions will be reviewed by ASIC Evaluation Panel
- Demonstrators will be informed on Wednesday 14 August
- Symposium on Thursday 22 August



# Confirmation of Observer process

- [Register EOI](#) by midnight (AEST) Sunday 4 August 2019
- Observers informed on Thursday 8 August
- Symposium on Thursday 22 August





**ASIC**  
Australian Securities &  
Investments Commission

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