

AIOFP slams digital advice as ‘fundamentally flawed’

IFA Bulletin (ifa.com.au)

Keith Ford

The Association of Independently Owned Financial Professionals (AIOFP) has warned that digital advice has some serious flaws.

AIOFP executive director Peter Johnston said that the Quality of Advice Review’s (QAR) stance on the implementation of digital advice in the Australian market is “fundamentally flawed”.

Mr Johnston said moving further towards digital advice could introduce highly conflicted vertically integrated advice back into the market.

While the QAR final report did not make any recommendations specific to digital advice, lead reviewer Michelle Levy wrote in the report that the good advice duty and the more flexible disclosure requirements would make it easier to provide digital advice.

“Digital advice tools also have the capacity to make it possible for financial institutions to employ staff who are not financial advisers to provide advice to their customers and to help financial advisers do their jobs more efficiently,” Ms Levy said.

In response to the QAR final report, Mr Johnston claimed that research has shown digital advice does not benefit consumers.

“Global research strongly indicates that specifically, digital advice for consumers has not satisfactorily worked anywhere around the world, the only form of digital success has been in the narrow platform product digital advice space where consumers have had limited benefit,” he said.

Richard Williamson, a Hong Kong-based Australian expert on digital advice with Banyan Advisors, said that there is no roadmap for sustainable digital advice.

“There’s no quality research on investment outcomes for robo-advisory clients, but there’s fewer and fewer independent platforms because the business model is inherently unprofitable, and having worked with these platforms in multiple capacities and multiple markets, my experience has been that the stress of

trying to stay in business means that client returns are a very low priority," Mr Williamson said.

"While captive platforms are (highly) profitable, it's well documented that conflicted advice hasn't worked well for retail investors previously."

Mr Johnston added that the AIOFP is concerned that consumer protections will be diminished with the introduction of the good advice concept to "cater for a flawed generic digital advice solution when it is unnecessary".

"If the banks want to give comprehensive financial advice outside of their own specific products, then they should comply with the current Corporations Law, we cannot have a confused marketplace with inconsistent conditions for adviser conduct," he said.

"Recent history clearly demonstrates consumers get disorientated with an inconsistent adviser market approach, some may say that had been the intention from the outset in the past."

However, Mr Johnston argued that if the best interest duty was retained, everyone should be happy with the outcomes.

"If banks/staff are given exemption from the Corporations Law advice conditions to only convey internal product-related factual information and the best interests/safe harbor obligations remain in place, it is a win-win-win for all stakeholders," he said.

"We don't want to see a currently flawed generic digital advice concept being used as a convenient distraction away from the statutory duty of all stakeholders to act in the best interests of consumers.

"Furthermore, Canberra must also act in the best interests of consumers by rejecting the overtures from the banking sector to dilute consumer protection for their own self-interest."

The AIOFP has been a staunch critic of the QAR and the removal of the best interest duty, while also backing a third-party evaluation of the final report.

Following the release of the QAR final report, Midwinter came out in support of Ms Levy's emphasis on the role of digital advice.

Midwinter chief commercial officer Steve Davison said: “A whole segment of the market is locked out of advice due to prohibitive costs today, a problem which is exacerbated by the fact that most personal advice services are too sophisticated for the simple advice needs of the average consumer.

“The role of digital advice has been called out in the report as a key enabler for providing affordable advice offerings and reducing complexity for professional advisers. Midwinter digital advice technology already underpins member and adviser-led advice services — predominately intra-fund advice — for 12 superannuation funds.”

Earlier in April, fund manager abrdn and three fintech firms, Ignition Advice, Money GPS, and Advice Intelligence, announced they are currently finalising the formalities to establish the Australian Digital Advice Association (ADAA), aimed at advocating for change in financial advice regulation and improving the delivery of digital advice solutions.

27 April 2023