

## 4.2 Advice through technological channels:

In their May 2015 Issues Paper, MBIE quite correctly described roboadvice as: “online algorithm-based portfolio management services that take into account clients’ risk tolerance, personal financial goals, and demographic characteristics”. However since then there appears to have been a misinterpretation of what those words actually mean.

The term roboadvice comes from the USA – I think most people probably already know this – and it is derived from the term “Investment Advisor” – which is the bit that people maybe don’t know. An investment advisor in the US is essentially a fund manager. An investment advisor can either be an individual or an organisation and they typically service high net worth individuals (as separate clients via segregated accounts) or large groups of clients via mutual funds. Investment advisors manage and give advice on securities only. That means stocks, bonds, ETFs and mutual funds. All the stuff that we in NZ typically regard as “advice” related (savings, insurance, investment advice, mortgage broking, estate planning etc) is done by “Financial Planners” in the US.

So the term “robo-advisor” means an automated “Investment Advisor” – or to put it another way – an automated fund manager. So let’s look at the MBIE description from the Issues Paper and break down what it means: “online algorithm-based portfolio management services” – that means a computer picking the securities (stocks/bonds/ETFs) and rebalancing the “portfolio” periodically based on pre-determined parameters. “take into account clients’ risk tolerance” – that it taken from an online risk tolerance questionnaire that the client completes as part of the signing-up process. It’s similar to the ones we have in NZ via Sorted etc. “personal financial goals, and demographic characteristics” – this is not as complicated as it sounds – it is simply three questions: what is your investment goal? (retirement savings/child’s education/a house etc); How old are you? and; are you male or female?

In New Zealand and to a lesser extent in Australia and the UK, the term roboadvice has morphed from being purely about investment management to also encompass the entire spectrum of financial planning. I suggest that regulators firstly settle on a definition of roboadvice so that everyone understands what it is. Once that has been done you can then move on to specify how it will work and who can use it.

10. How, if at all, should requirements differ between traditional and online financial advice?

It makes sense for MBIE to amend the legal requirement around advice only being provided by a natural person in order to facilitate future technological advancements such as online advice platforms using “big data” to pull in information about an individual from all areas on their life in order to provide a personalised financial recommendation.

## 4.8 Finding an adviser

25. What is the best way to get information to consumers? Who is best placed to provide this information?

Having a searchable, online tool such as the one described in option 1 of this section would be ideal. Customers should be able to search for a financial adviser in their geographic region based on the product type or service they require. E.g. I live in Nelson and I require life insurance. If financial advisers are categorised by the products and services they are qualified and licenced to provide advice on then this would be a useful consumer tool.

## 5.2 Package 2

34. What changes could be made to any of the packages to improve how its elements work together?

To me it seems logical to have only one name for all financial advisers in NZ which would be “Financial Adviser”. All financial advisers should have to meet certain minimum standards (educational, ethical, professional) to be able to use the designation and this should be policed by an industry body such as the IFA or PAA (or both) or perhaps a regulator such as the FMA. Maybe use the Code of Professional Conduct (with

appropriate changes) as the basis for this. The proposals in package 3 are the closest match to this. I quite like the system they use in the US whereby you obtain certain classifications or endorsements depending on the product types you provide advice on. In NZ these could, in part, follow the categories in the FMCA e.g. Debt, Equities, Derivatives, Managed Investment Products. There would also need to be additional categories like mortgage broking, insurance, estate planning etc. Each one of these endorsements would require study, an exam and ongoing professional development. That would mean advisers would all have the same baseline of competence, client care, professionalism and ethics and could then choose the product areas they wish to specialise in. This information could then be supplied online and in standardised disclosure statements so that customers can easily see the areas that advisers specialise in.

Regarding the question of how lawyers, accountants and other professionals who are not financial advisers fit into the above, I suggest there should be two parts to this. The first is the regulatory, governance and professional conduct side and the second could be called the product side. Regarding the first side, I agree with those that say lawyers, accountants and certain other financial professionals who are members of an association are already subject to regulatory, governance and other oversight. This should be regarded as the same standard of professionalism as a financial adviser being a member of the IFA/PAA, following the Code of Professional Conduct and being regulated by the FMA. In both cases that should be regarded as the baseline, the minimum standard. However that minimum standard is an ethical and professional benchmark, not a product one. Simply being an accountant or a lawyer or even a financial adviser does not somehow impart product knowledge. Should an accountant be allowed to give a retail customer advice on US small cap equities just because they are a qualified accountant and part of a professional body? How does that equate to knowledge of US equities?

I suggest that the product side should be separate from the regulatory, governance and professional conduct side. Lawyers and accountants should not be able to call themselves financial advisers (unless they go through the training and become financial advisers), but there should be no reason why they cannot give product advice provided they have obtained the required endorsements/classifications that I mentioned above. This system would acknowledge that the various professions (financial advisers, lawyers, accountants, etc) all have a similar base in terms of ethics, conduct and professionalism, but it would also assume that no professional in any of these fields is qualified to give specific product advice unless they hold an endorsement for that specific product.

Also, I wouldn't have thought there are many advisers out there that would be comfortable having "expert financial adviser" written on their business card or email signature. It sounds a bit, well, arrogant. It would also cause confusion as to what the difference is between an ordinary financial adviser and one that's an expert. Why can't a mortgage broker or an adviser who is solely focused on insurance products be an expert in that field? MBIE has stated that the designation "expert" will be reserved for advisers who provide complex or high risk financial advice services. Surely the majority of the complexity exists at a product level? So wouldn't it make sense to give individuals the right to choose which products they wish to specialise in without the need for a label such as registered, authorised or expert?

As financial advice is not my field of expertise I will leave it at these simple musings.

### 35. Can you suggest any alternative packages of options that might work more effectively?

In the summary of packages 2 and 3, MBIE has stated that an RFA could provide roboadvice once they become a "financial adviser". There appears to be a misunderstanding of what roboadvice means here..... A roboadviser is an online fund manager/investment analyst/stock picker so it is not appropriate to suggest that an RFA could provide this service – especially given that RFA's can't currently even give advice on managed funds. A definition of what roboadvice is and what it covers would be useful here.

### **General comment**

Having read through a number of the submissions made to MBIE on the FAA Issues Paper in 2015, I have come across a handful of submissions from individuals, including one from a well-known legal firm, that promote the reclassification of KiwiSaver as a category 2 product so that RFA's can promote and advise on it. The arguments for this all follow a similar theme that KiwiSaver is a well-known and widely understood product.

My question to those submitters is this: If KiwiSaver is so widely understood why is it that various surveys and polls (such as those conducted during MoneyWeek) still result in many respondents thinking that KiwiSaver is either government guaranteed or is a bank term deposit or similar product?

On the outside KiwiSaver may appear straight forward enough – you join a scheme and become a member, choose a fund or funds based on your risk profile and then make contributions from your salary. However on the inside there are still underlying investments that ultimately dictate whether the value of your KiwiSaver investment goes up or down. Some of those investments are shares, bonds and cash and others are hedge funds, fund-of-hedge-funds and derivatives. Is an RFA qualified to analyse the underlying portfolio holdings of a KiwiSaver growth fund that has exposure to derivatives, understand what that means and then make a recommendation to a client?

The fact that many consumers still do not fully understand what KiwiSaver is about is not all that surprising when we have industry professionals struggling to grasp the principles themselves. Given that the NZ funds industry is mostly a fund-of funds or master/feeder setup (whereby retail funds, like KiwiSaver funds, gain their investment exposure by investing in units of other funds which then invest in the market) – there will be examples where a KiwiSaver balanced fund, for example, will invest in the same underlying funds as another retail balanced fund that is not a KiwiSaver fund. Should these two identical retail balanced funds be treated differently just because one happens to be in a KiwiSaver scheme? They have the same risks and investment exposures so how does being in a KiwiSaver scheme somehow shield an investor from the same investment risks experienced by the non-KiwiSaver fund? And why should an RFA be allowed to give advice on the KiwiSaver fund but not the non-KiwiSaver fund?

What needs to be understood is that a KiwiSaver investment is no less risky than any other comparable managed fund investment and should therefore be treated the same way. It is irresponsible for anyone to suggest otherwise.

*The views and opinions expressed herein are solely those of the author and do not necessarily reflect the views of his employer, its affiliates, or any of its employees.*