Reforming Financial Advice – Providing Data

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Agenda

A proposal to automate data collection for financial advice

- The data: what and where held?
- Feasibility
- Cost benefit analysis
- Industry and agency views
- Best way forward?

A vision for Australian superannuation advice

- Advice model is broken
- Coaching or planning
- The financial plan on a page

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The proposal

Data required for financial advice could conceivably be collated automatically – saving costs and improving quality.

Data are held by various government agencies, some provided by financial institutions.

Collation could be through:

- *MyGov* or other agency?
- Private data aggregators?
- Other?

The data: what and where?

- Demographic: age, household composition and health.
  - *Medicare*
- Historical income (to project future income).
  - Taxable income from the *ATO*
  - Welfare benefits from *Services Australia* (Centrelink)
- Historical development of assets, including superannuation, property and bank balances (for projections and to determine investment risks and savings patterns).
  - *ATO* (except historical bank balances?) or *Services Australia*
- Vehicles, boats, caravans and farming equipment and materials.
  - *Personal Property Securities Register*

The ATO’s access powers

The ATO collects information about taxpayers. About you! The ATO collects your data from…

- your employers,
- your bank and other financial institutions (now including banks overseas),
- health insurance funds,
- BAS Statements,
- Superannuation accounts,
- and the property information your state may have

https://www.etax.com.au/ato-data-matching/

Feasibility?

- Government agencies already match data
  - *MyGov* managed by *Services Australia*
  - The Longitudinal Multi-Agency Data Integration Project (LMDIP) combines data from the *ATO, Medicare, Social Security* and the *ABS* Census. Over 93% of tax and social security records match Medicare.

Biddle, N., Breunig, R., Markham, F., & Wokker, C. (2019). Introducing the Longitudinal Multi-Agency Data Integration Project and Its Role in Understanding Income Dynamics in Australia. *Australian Economic Review,* 52(4), 476-495.

- Other initiatives through the *Digital Transformation Agency* and *Office of the National Data Commissioner*

Cost benefit analysis

Benefits

- Reduced cost of advice
  - 1% reduction would save $20m p.a. for existing clients
  - Standard advice could be reduced to perhaps $300?
- Easier quality control of standard advice if largely automated
- Quality advice and annuity products would lead to retirees spending more because of their greater confidence. Important for post-COVID recovery.

Costs

- Enable interfaces (APIs) between agencies and financial advisors. UK estimates an API project to cost about £1m.

https://www.pc.gov.au/inquiries/completed/data-access/report/data-access.pdf

- Ensure privacy, which is already done for MyGov and banking Consumer Data Right (CDR).

Other views

- *Financial Planning Association* (FPA) suggests that enhanced technology could reduce costs by two thirds.
  https://fpa.com.au/wp-content/uploads/2020/01/2019_12_23_FPA_Submission_Senate-SCFTRT.pdf

- Administrator *Sargon* suggests that the CDR would have "nigh-immeasurable potential for transforming … superannuation".
  Senate Select Committee on Financial Technology & Regulatory Technology - Submission from Sargon, December 2019 https://www.aph.gov.au/DocumentStore.ashx?id=ee685f81-e576-4ec9-9f15-22e33e62a116&subId=675225

- For *Fintech Australia,* the CDR would allow "FinTech companies to create a more holistic view of a Consumer's financial position …"
  https://treasury.gov.au/sites/default/files/2019-03/t247313-FintechAustralia.pdf

- We have spoken to senior people at APRA, ASIC, ATO and Treasury and found an openness to the idea.

Best way forward?

- Private initiative?
  - Access to data both private and public requires new legislation (along CDR lines).
  - Expensive negotiations with data providers, and multiple APIs required.
  - Route to market is long and also expensive.
- Government initiative?
  - Data is already collected, or agencies have the power to collect it.
  - Disclosure of their own data to individuals is good governance – and should require minimal legislation.
- Theoretical considerations?
  - Private sector development will allow scope for greater creativity.
  - Public sector development justified along in the same way as the provision of infrastructure or education.

A vision for Superannuation advice

- Superannuation members are provided with meaningful, personal advice on how much to save and spend throughout life.
- This advice should be available at reasonable cost at key points in life – starting out, having children, buying a home, when the nest empties, and when beginning to think about leaving the workforce.
- Appropriate annuity type products should be widely available and encouraged to ensure a lifelong income from superannuation.

See "Developing the retirement income framework".
Actuaries Institute Retirement Income Working Group (2020)
https://actuaries.logicaldoc.cloud/download-ticket?ticketId=b6c596fe-d86e-4ed6-82b2-b9faeca533fd

Standard advice for the middle

- Those in the top two lifetime income deciles, can have complicated investments and need complex advice.
- Those in the bottom two deciles should have a savings buffer, and may need advice to plan for periods of unemployment, but are looked after by the Age Pension in retirement so do not need retirement advice.
- Those in the middle 60% invest significantly in superannuation, and need (standard) advice on how much to save, where to invest (including a home), and when to retire.

Advice model is broken

- Financial advice is hopelessly complicated and very costly.
- The industry blames the regulators, ASIC blames overly conservative compliance teams and attempts to "stop… less qualified advisers."

https://www.professionalplanner.com.au/2020/08/conservative-licensees-making-scaled-difficult-asic/

- Conceptual problems with current practice in giving financial advice:
  - Investment risk is (mis)understood as short term rather than long term volatility.
  - Longevity risk is (mis)understood as addressed by adding a few years to life expectancy.
  - People are (mis)advised to take more risk if their projected income does not meet their arbitrary "goals".

    Asher, A, A. Butt, G. Khemka and U. Kayande (2015) Formulating Appropriate Utility Functions and Personal Financial Plans. http://www.actuaries.org/oslo2015/papers/PBSS-Asher.pdf
  - People are wrongly assumed to have formulated "personal financial goals", while really want help in maintaining level normalised expenditure throughout life.

    Bruhn, A., and Asher, A. (2020). The primacy of ethics in the provision of financial advice. *Accounting & Finance*.
  - Annuities are discouraged because no ongoing need for advice and trail fees.

    Asher A and Fergusson K, (2020) Maturity Transformation is an Oxymoron: Ways to Match Pensions and Long-term Assets. https://actuaries.logicaldoc.cloud/download-ticket?ticketId=dc92c426-1ab0-4ce6-abbe-58003b96fb87

Analysis of expenditure?

- Some financial advisers add value by coaching and look at expenditure in detail.
- Some banks already provide an automatic analysis of expenditure and composition, but lots of noise – while the big items (such as cars and houses) are probably more important.
- Most people have flexibility in expenditure, and much evidence of "hedonic adjustment".

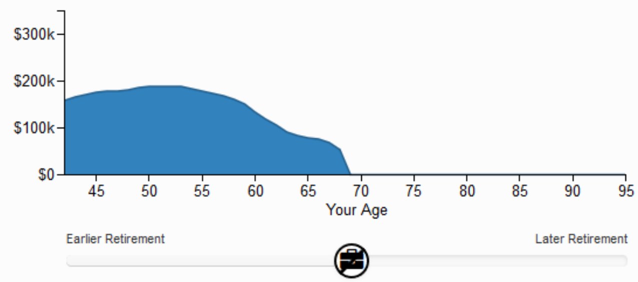
Therefore, the starting point should be current expenditure, which can perhaps be derived from after tax income and growth (or otherwise) of assets – as a first guess. This can be supplemented by consideration of bank information.

The financial plan on a page

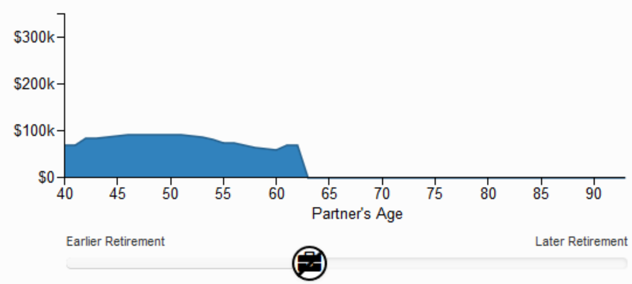
Your Details

Amounts are in today's dollars

Your Employment Income



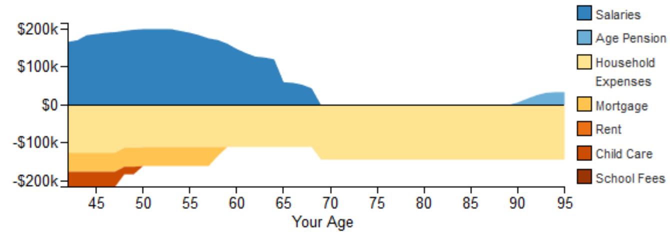
Your Partner's Employment Income



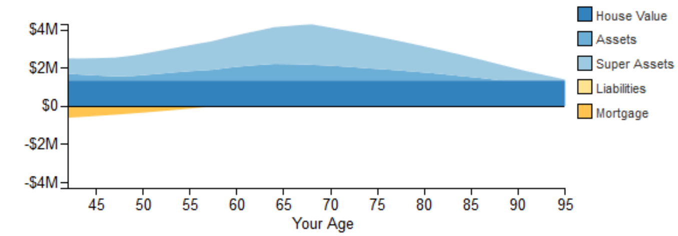
Spending in Retirement and with Children

Calculation Results

Income and Expenses



Assets and liabilities



Our calculations work out that you can spend $165,509 this year (plus rent and children's costs if applicable), and your contributions to superannuation should be a total of $6,650.

The amount you want to set aside for specific purposes (as a bequest and as precautionary savings) is $50,000.

Your life insurance needs should be $382,157 if you want the family to maintain its sustainable lifestyle.

www.draftfinplancalc.com