Adoption of Robo-Advisory Service in the Personal Financial Planning Industry in Australia

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Abstract. Everyone needs personal financial planning. The post-GFC fraud and financial crisis has resulted in confidence in financial services and professionals being at an all-time low. Financial advisors may not be affordable for everyone because of their high cost, diverse demand for financial advice, and barriers to consumers getting complete financial advice. Robo-advisory services can provide low-cost financial guidance. Robo-advisory services use artificial intelligence and algorithms to generate limited financial advice based on a client's portfolio, risk preferences, and financial goals. Robo-advisory services still have fiduciary obligation and competence concerns. This study considers regulators and service providers and then explores how ASIC guidelines facilitate the deployment of robo-advisory services in personal financial planning in Australia. This study establishes the definition of a robo-advisory services and examines its fiduciary duties, natural persons, minimum training and competency standards, and the results show that the regulations and recommendations are acceptable. At the same time, this study will explore how Australian robo-advisory service providers can help with personal financial planning. The findings indicate that service providers' product disclosure statements must be revised to facilitate robo-advisory services.

Keywords: Robo-advisor · Robo-advisory services · Fintech · Artificial intelligence · Personal financial planning

1 Introduction

Altfest [2] defined personal financial planning as an effective way to prepare for future family financial needs. Professional financial counsellors are frequently consulted by investors who wish to participate in financial markets or seek individualised financial planning solutions. Boon, Yee, and Ting [6] believe that investors usually seek financial advisors in order to participate in the financial market, because they think their financial literacy is not as good as experts. Meanwhile, in the past five years, scandals in the financial industry have been increasing, attracting the attention of scholars, regulators, and the general public [12]. Moreover, financial mistrust and scandal are a regular occurrence in Australia. Public wariness of financial matters has brought financial scandals to the forefront of politics and legislation [16]. The federal government in 2017 sought to

establish a royal commission into financial sector malfeasance. The royal commission's final report cites misconduct scandals involving the Commonwealth Bank of Australia [12]. More importantly, the Australian Securities and Investments Commission (ASIC) is perceived to have performed poorly in regulating financial markets [12], as the Royal Commission found that ASIC had a culture of negotiating outcomes rather than preventing corporate malpractice [20]. ASIC has rarely sought public censure and judicial penalty for misbehavior [23].

Fintech is a new technology that combines digitalization and automation of financial services [18]. Fintech can mitigate financial service misconduct and service provider-customer crisis gaps [18]. Abraham, Schmukler and Tessada [1] define robo-advisory services as digital platforms that use algorithms and artificial intelligence to provide tailored financial advice to clients. Acceptance and implementation of robo-advisory services in the financial planning industry can help restore public confidence by minimizing biases and conflicts during consultations. Human financial advisors can be biased, and commission driven, which is at the root of banking and financial culture. However, bias can be avoided by using automated algorithms and artificial intelligence, and decision-making processes can be more transparent [1].

Robo-advisory services are considered an ideal solution for personal financial services. Despite laws to guide robo-advisory services development and legislation to become a financial advisor, gaps may exist. Lee, Kwon, and Lim [19] predicted that robo-advisory services might be regulated like human financial advisors. Australia's financial advice legislation applies only to humans, not algorithms or AI. Although robo-advisory services' Asset Management scale (AUM) has been expanding since its inception [25], it is important to explore whether they are safe and appropriate to use in different countries due to differences in regulations and consumer protections. Due to poor regulation, customer concerns, and stakeholder conflicts of interest, many countries are unprepared for robo-advisory services [13]. The study will determine whether Australia is ready for full adoption of robo-advisory services and assess robo-advisory services in the Australian personal financial planning business.

2   Body-1

The global financial crisis reduced confidence in human financial advisors, and then robo-advisory services became a commodity. As financial fraud and human mistake proliferate, robo-advisory services move from theory to practice [9]. Robo-advisory services might be promoted to rebuild public confidence, which has been damaged by fraud and the global financial crisis. The government supports the use of robo-advisory services in the personal financial planning industry according to the Australian Securities and Investments Commission. Therefore, it is important to understand where the Australian financial planning industry stands in the promotion and adoption of robo-advisory services, which help identify current shortcomings of robo-advisory services and identify key improvements to safeguard the public interest and consumers.

3   Background

The concept of a robo-advisory services was first introduced in the US in 2008. Wealthfront and Betterment were the first companies to introduce and implement the notion into their daily operations. Initially, robo-advisory services at these firms were used to provide clients with algorithmically generated recommendations for simple questions, such as the currently accessible list of stocks and bonds [17]. In 2010, when algorithmic and artificial intelligence technology matured, both companies began delivering financial advice to their actual clients. According to Taulli, Wealthfront's first robo-advisory service was designed to provide financial assistance to clients through the technology community [17]. However, due to the promise of computer software, Wealthfront's founders revised the company's mission and found that it could provide more affordable financial guidance to more individuals [29]. Meanwhile, Jon Stein, co-founder of Betterment, believes that the automation and digitization of the financial investment process will enable them to adopt sophisticated technologies from the financial planning industry [5]. Betterment uses automated robo-advisory services technology to simplify the investment process and reduce the cost of financial advisors. Betterment and Wealthfront's robo-advisory services continue to be among the most competitive in the globe [21].

Financial advisory firms, pension funds and the banking industry have built public-facing AI advisors or robo-advisory services that offer individualized financial strategy advice [28]. As more companies have created robo-advisory services, their asset management (AUM) has grown rapidly [1]. Robo-advisory services' AUM was expected to reach $20 billion in 2014 but had climbed to $2.2 trillion by 2020. BI Intelligence expects $8.1 trillion in global management by the same year [25]. As mentioned earlier, robo-advisory services are likely to grow in number, encouraging market players to explore alternatives through intermediaries and helping the wealth management industry regain public trust and confidence.

Although robo-advisory services AUMs have grown substantially, given the differences in regulatory integrity and consumer protection, it is necessary to analyze the security and stability of their use in different countries. Weak regulation, consumer concerns and public stakeholder conflicts have prevented most governments from deploying robo-advisory services widely. This study will determine if Australia is ready for robo-advisory services in personal financial planning.

Schwinn and Teo [27] argue that due to the global financial crisis, the Australian financial industry has spent more than 50 years integrating and expanding its services by introducing advanced technology and FinTech to the industry. Kagan [18] points out that fintech is a new technological innovation that aims to digitize and automate the delivery or use of financial services. In addition, it aims to enhance the value of financial institutions' services by integrating algorithms and artificial intelligence into their service chains to help them better manage their services and customer interactions. The combination of finance and artificial intelligence is an area that many providers of personal financial planning advisory services are focusing on. Robo-advisory services have been seen as an emerging innovation in the field of personal financial planning. The robo-advisory services in the personal financial planning business are regarded to be one of the most influential aspects in enhancing services and recruiting clients [25].

4   Body-2

Ngo-Ye, Choi, and Cummings [24] argue that when the credibility of financial institutions is under attack, it is crucial to regain trust and reputation. The emergence of robo-advisory services may restore investors' faith in the financial planning profession. According to Accenture research [7], 68% of clients are ready to use robo-advisory services for retirement planning. Clients like robo-advisory services because of their objectivity and lack of bias [22].

Under the Corporation Act of 2001, automated financial advisors using algorithms, deep learning or machine learning must meet the same legal standards as human advisors [8]. Easterbrook and Fischel [15] and Ringe and Ruof [26] pointed out that fiduciary responsibility is the responsibility undertaken for the benefit of others. The trustee can act for others due to a fiduciary duty. Using the workplace as an example, this study found that financial planners must comply with fiduciary obligations to preserve clients' information and financial needs. According to Chia [8] and Degeling and Hudson [14], robo-advisory services must publish more information than human financial advisors to comply with the Corporations Act 2001 compliance. According to the Corporation Act 2001, the main obligations of financial advisors mainly include the following aspects.

1. Act in the best interests of the client (Corporation Act 2001(Cth) s961 (1)).
2. Put client's interests before their own (Corporation Act 2001(Cth) s961 (1)).
3. Provide appropriate suggestions (Corporation Act 2001(Cth) s961 (1)).
4. If a financial product recommendation is incomplete or inaccurate information, it should be disclosed to the customer (Corporation Act 2001(Cth) s961 (1)).

At the same time, according to the ASIC Regulatory Guide 146, every person who meets the definition of a natural person in the Companies Act 2001 (s910A) must meet the training requirements. Consultants must meet the training requirements by completing an ASIC-approved training course assessed by an authorised assessor and published on the ASIC Training Register (ASIC RG146.63). In other words, this might be interpreted as a "representative" making financial decisions based on their work and aptitude [4]. The Corporation Act 2001 s910A provides for representation as follows.

1) If the person is a financial service licensee:

   i.   An authorised representative of the licensee.
   ii. An employee or director of the licensee.
   iii. An employee or director related body corporate of the licensee.
   iv. Any other person acting on behalf of the licensee.

2) In any other case:

   i.   An employee of director of the person.
   ii. An employee or director of a related body corporate of the person.
   iii. Any other person acting on behalf of the person.

5 Body-3

Australian regulators are still developing standards to protect users and providers of robo-advisory services. In addition to finance, AI is widely used in marketing, sales, fraud detection, illegal protection, and other industries in Australia. However, compared to other countries, Australia's financial services industry is still in the early stages of incorporating AI into its daily operations. As a result, there are limitations and shortcomings in legal and commercial standards for robo-advisory services to use AI to provide comprehensive services.

This study may have two limitations. Firstly, due to the short timeframe of the honours program, only archival data was collected. The main data sources of this paper such as measuring regulators and users of robo-advisory services are not feasible. Future research can question regulators and users of robo-advisory services to provide broader evidence of the adoption of robo-advice in Australia. Interviewing public users in the field of personal financial planning to understand their adoption and use of robo-advisory services will be one of the directions of future research. This is because interviews can better reflect the use and philosophy of robo-advice services in the Australian personal financial planning industry from the perspective of users, providers, and regulators.

6 Conclusion

This is one of the first study on robo-advisory adoption in Australian personal financial planning. First, the data for this study are collected and analysed manually, which can improve the consistency of the survey and the thoroughness of the data. Second, this study examines the application of robo-advisory services in personal finance from two perspectives, which is helpful for further research, as the results and findings of this study may add new ideas to the existing literature review by regulators and service providers.

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