

Reforming online advice

BY SEAN MCINTYRE

At first glance FSR requirements appear to place impediments or obstacles to those financial institutions that provide only online products.

Will these institutions now have to establish hybrid "face-to-face/ virtual" relationship interaction with their online customers? One that neither the provider nor the customer wants?

"For these online banking account providers, such an option doesn't sound viable", says Mark Sneddon, partner, e-business, financial services and privacy at Clayton Utz. However, he "suspects it will be the case for ING Direct and St George Bank's Dragon Direct".

As Australian institutions fall into line under the Financial Services Reform Act confusion still exists on the level and extent of compliance required online.

At one extreme you have some banks expecting customers to read an online version of their financial services guide before allowing access to their website. Bendigo Bank is one such example.

At the other end of the scale, some financial institutions prefer to thrust an online disclaimer into the hands of their customers. The "we're not providing advice" response to FSR.

The exact degree of compliance is open to interpretation and strategy.

It's "all or nothing" verses the minimalists.

The online relationship

For "clicks and mortar" financial institutions that provide some financial products only in an online environment, the impact of the FSR means that entrepreneurial skills and abilities to "think outside the browser page" will be challenged. Institutions must meet the demands of compliance without compromising the "virtual relationship" that both the bank and its niche market have grown to know and love.

Banks have been herding consumers towards online banking services with great success in recent years. While consumer lobby groups regularly shoulder arms to bristle against the strategy, one thing is clear: Australian's love the Net.

In fact our senior "surfers" can't get enough. There's been a massive increase in Net uptake for those 55 or

Compliance check

FSR stipulates that licensed financial services provider's must supply consumers with:

- A written *financial services guide* (FSG) before the consumer start's dealing with them.
- A written *statement of advice* (SOA), if the financial adviser gives the consumer personal advice and,
- A *product disclosure statement* (PDS) when they recommend or offer to sell to a consumer:
 - Managed investments
 - Superannuation products
 - Insurance products
 - Retirement savings accounts
 - Deposit products
 - Derivatives.

Source: ASIC

older, they rate as one of the fastest growing groups on the Web – 40 per cent use Internet banking while one in four pay bills online.

Bankers would love to take credit for this. Yet as one speaker conceded at the recent New Technologies and Solutions for Financial Services forum in Melbourne:

"The exact degree of compliance, it seems, is open to interpretation. It's 'all or nothing' verses the minimalists."

"We simply go where the market directs us."

Clearly, there is a growing acceptance, even demand, from consumers for less physical interaction with their bank and, in a lot of cases, none at all. It's a happy match with the corporate drive for a better bottom-line return.

Given the two year lead-in before FSR took effect most bankers and providers of financial services and products had a good feel, in a compliance sense, for the manner in which the legislation was going to affect the way financial products were sold online.

To become FSR compliant, changes implemented by ANZ Bank are typical.

Kate Gore, ANZ Bank media relations manager, says: "In terms of the online space, the main changes for the e-commerce team have been around the product disclosure statements.

"For certain products governed by the FSR there was a need to update what was formerly the terms and conditions to meet with the new legislation and then to publish this new document online. As well as that the e-commerce team published the financial services guide online.

"Most of the work was done in the various product management teams who would have put together the product disclosure statements, got them ready for hardcopy printing and also provided a PDF version for online".

Gore noted that the other main change for the e-commerce team was to update online applications with the relevant product disclosure statements. Product applications also had to be updated so that the customer agreed to having a product disclosure statement and financial services guide provided online.

Jane Clappcott, ING Direct communications manager, confirms that "with regards to FSR, ING Direct has adopted practices so the bank fully complies with the new legislation".

Consequently, when a consumer visits www.ingdirect.com.au, they will find an FSR compliant statement notifying them that the advice on its site does not take into account their objectives, financial situation or needs.

A quick review of websites for other FSR licensee's reveals some similar compliance statements.

Positive, not negative?

For FSR, it is early days. Yet the buzz around banking industry circles seems to be that side benefits to compliance are emerging.

"FSR was a huge undertaking," says Richard Peters, spokesperson for National Australia Bank.

"All customer-facing staff involved in a sales capacity had to undertake additional training." This naturally included all call-centre staff.

Behind the scenes though it appears that FSR is not only welcomed, but is likely to be viewed as an ongoing business tool that can be wielded →

→ with a great degree of competitive advantage – if executed well.

Peters agrees: "Any change in legislation that provides clarity and peace of mind for consumers is a welcome one."

Financial services providers seem to be moving away from an attitude of "we must be compliant for the sake of being compliant".

Rather, industry figures are recognising a competitive opportunity, moving more towards putting the best systems in place to deal with ongoing compliance and providing more information to staff right across the company.

Pam Hauser, director in KPMG's regulation and compliance group, says organisations must ensure that their processes can withstand surveillance and that they are prepared in the event of ASIC conducting a "spot" audit on their processes and procedures.

KPMG has received requests from its clients to prepare them for ASIC

surveillance. As a result KPMG is offering its clients a "mock surveillance" service.

"So long as the FSR impact on the customer's experience of service is minimal and positive, everyone wins"

"Until their processes are rigorously tested they can't be absolutely confident of a positive outcome from ASIC surveillance. It is best that we discover any deficiencies in a mock surveillance –

giving organisations an opportunity to fix them – than ASIC discover them in a real surveillance," she added.

Online advice – Where to draw the line?

West Australian banking alternative Police & Nurses Credit Society has been meeting its FSR obligations since January 19.

The credit society has not shied away from providing online advice, despite having to meet the new FSR obligations.

Police & Nurses brand strategy manager, Paul Ivankovich, says that the Society has been preparing for the implementation of FSR and has become a registered training organisation to deliver the national training competencies required under FSR.

Bendigo Bank | HOME | PERSONAL BANKING | BUSINESS BANKING | FINANCIAL SERVICES | COMMUNIT

Bendigo One Home Loan

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Loan Calculators
Calculate your loan repayments to see how much you can afford to borrow. See what

e-banking
Logon | Troubleshooting

Online Share Trading
Enter

Where are we?

Read our financial services guide or do not pass "go".

In keeping with FSR, the Society is also able to offer consumers who visit their website online assistance through its "Live Help" service (featured in *Online Banking Review* Dec03/Jan04 edition).

"We actually have scripting specific to FSR that we use in the event that members inquire about new products and services via Live Help," says Ivankovich.

"Our online consultants have been trained in FSR and we are able to refer people to specific pages on our website that contain our product disclosure statements, terms and conditions, financial services guide as well as any fees and charges."

Calculating compliance

Online financial calculators have been used extensively throughout the industry since the first years of the Internet. But FSR has raised some curly questions as to their continued use.

Do financial calculators fall under FSR rules applying to the provision of personal financial product advice?

Commonly made available by superannuation funds and insurers, online calculators allow fund members to obtain forecasts relating to their retirement benefits based on data provided by the member.

John Moutsopoulos says that from a commercial perspective, onerous disclosure obligations, such as providing a statement of advice to fund members, is likely to be impractical and unduly burdensome.

Unless a solution is found, Moutsopoulos feels that a likely

result is the withdrawal of retirement calculators from the market, leaving fund members with a gap in their information flow. This is further exacerbated by the fact that fund members are less likely to visit a financial adviser for questions relating to simple financial matters.

Finance commentator Paul Clitheroe says if this happens then we've gone too far. "Then it's gone from helping the consumer to hating the consumer."

He adds: "Like all legislation you often kill the good stuff with the bad stuff."

Commonwealth Bank spokesperson Paul Rea suggests they haven't had this problem with deposit products.

"The legislation allows simplified disclosure for basic deposit products so the situation with savings accounts is not as complex as, for example, a superannuation fund," says Rea.

"We are confident that our online calculators comply with the provisions of the Act."

Minimal but positive

So long as the FSR impact on the customer's experience of service is minimal and positive, everyone wins.

This point is particularly important for customer service professionals. No matter how the legislation is interpreted, the bottom line is that the name of the game is customer service.

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