Actuaries Institute.

Actuaries Propose a Roadmap for Responsible AI-Enabled Financial Advice

The Actuaries Institute has set out four practical areas for action that could help Australia fulfil the promise of AI-enabled financial advice and combat the shortcomings of existing chatbots and AI tools, some of which have been shown to offer potentially incomplete or potentially inappropriate financial guidance.

The areas for action include measures to improve financial literacy, encourage greater AI-enabled innovation in Australian financial services, modernise regulation, and strengthen regulatory supervision of AI-enabled financial services.

Each area is detailed in a Discussion Paper, *How AI can help people make better financial decisions: Improving access to financial help, guidance and advice*, authored by the Actuaries Institute's AI and Advice Working Group*.

This paper builds on a previous Actuaries Institute Discussion Paper, *Financial Advice Reform and Help, Guidance and Advice*, and follows the release of the Actuaries Institute and UTS Human Technology Institute paper *AI Risk Management for the Financial Services Sector*.

Barriers to good-quality AI-enabled advice

In developing the latest discussion paper, the authors tested four popular chatbots using five hypothetical Australian retirement and investment scenarios. The authors assessed the responses and found that while the chatbots made some acceptable recommendations, most responses were potentially incomplete or potentially inappropriate.

“What is most concerning is that all four failed the most consequential question in our testing – a detailed query about retirement advice – at a time when one in eight over-45s use AI for super and retirement questions,” says Actuaries Institute Public Policy Council Committee member and actuary Nathan Bonarius.

Adviser numbers have fallen by almost half since 2018 to about 15,000, leaving many Australians unable to access or afford licensed financial advice. Only about one in six over-55s gets financial advice.

“Many people turn to chatbots for financial advice because they seem like the easiest option, but most people lack the financial experience and expertise to ask the right questions in the right way. Chatbots can confidently make inconsistent or incorrect recommendations that appear to be personal advice, even if there are disclaimers,” Mr Bonarius says.

The discussion paper found popular chatbots and existing AI-enabled advice models struggled to perform calculations, projections and scenario modelling. Responses were difficult to explain and audit.

It is also unclear where liability should lie for errors or poor-quality AI-generated financial advice. But what is clear is that it is not only an issue for the consumer but also government, regulators, advisers and financial institutions.

“AI has the potential to democratise access to high-quality financial advice. However, you need to be able to trust it, and that relies on AI being well regulated, controlled and governed,” Mr Bonarius says.

“AI has been developing quickly but the rules haven't caught up. We need to work together to create the right environment for AI-enabled financial advice to provide quality financial help, guidance and advice to millions of Australians who are currently locked out of accessing personalised support.”

Four areas to address in the drive for better AI-enabled help, guidance and advice

1. Raise financial capability, digital literacy and AI literacy

To help give Australians the skills to navigate AI-enabled advice and avoid potential pitfalls, the paper proposes updating the National Financial Capability Strategy, setting measurable targets and reinstating a biennial survey to track progress on financial capability. It also recommends government and ASIC consider adding an AI-powered chatbot to the MoneySmart website as a trusted alternative to general-purpose chatbots.

“Improving financial knowledge, skills and confidence across the population is a major challenge, but the issue is too important to ignore. Australians need the skills to ask better questions, understand the limits of AI responses and make more informed financial decisions,” Mr Bonarius says.

2. Encourage Australian innovation in financial services
The paper recommends that Government improves the regulatory sandboxes where new AI services can be trialled to encourage businesses to take risks in developing these capabilities.

“Given the importance of financial services to the Australian economy, Australia needs to have more ambition when it comes to applying AI to financial services,” Mr Bonarius says.

3. Update regulation and enforcement to allow for emerging developments in AI
To provide clarity for industry and protection for consumers, the paper recommends future financial advice reforms clarify and enforce rules on unlicensed AI advice, update digital advice guidance, and resolve uncertainty around financial nudges and prompts.

It calls for consistent licensing, complaints processes and accountability for poor advice to maintain consumer protections regardless of whether people or AI delivered the advice.

4. Strengthen regulators’ AI capabilities
The paper encourages ASIC to continue to strengthen its first-hand knowledge of AI by using the technology to analyse publicly available data to identify potential breaches and prioritise high-risk providers. This would enable earlier intervention, broader market coverage and stronger consumer protection.

From chatbots to a seamless AI-advice experience

The paper suggests that as technology and regulation evolve to overcome the barriers to AI-enabled advice, there could be greater convergence between factual information, general advice and personal advice.

“Our longer-term aspiration is for all Australians to have access to trusted help, guidance and advice, including through AI. Getting there won't be simple, but the opportunity is significant: affordable, personalised support when people face important financial decisions,” says Actuaries Institute Chief Executive Officer Elayne Grace.

“Progress will depend on working together to lift consumers' financial and AI literacy, give responsible providers room to innovate, and strengthen regulation and supervision so consumers are protected. Actuaries can help support innovation and build trust by designing and testing AI-enabled advice, drawing on their expertise in modelling, risk and governance, with a focus on good outcomes for consumers.”

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Actuaries use data for good by harnessing the evidence to navigate into the future and make a positive impact. They think deeply about the issue at hand, whether it's advising on commercial strategy, influencing policy, or designing new products. Actuaries are adept at balancing interests of stakeholders, clients and communities. They're called upon to give insight on complex problems and they'll look at the full picture. Actuaries analyse the data and model scenarios to form robust and outcome-centred advice.

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