



3 November 2014

Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
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Parliament House
CANBERRA, ACT 2600

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Dear Committee Secretary,

AFA Submission – PJC Inquiry into Lifting the Professional, Ethical and Education Standards in the Financial Services Industry

Thank you for the opportunity to present to the PJC on 14 October 2014.

During our presentation, a number of questions were raised where we were asked to provide a response. Our answers to these questions are set out below:

1. Details of AFA Back to Basics Research from 2010

Attached to this letter is a copy of the July 2010 AFA white paper – Back to Basics, which was prepared by CoreData / brandmanagement.

This research involved both focus groups and a survey of 1,054 people across Australia. Importantly this research showed that financial advisers were rated 7.5 out of 10 by those who were advised, as compared to 4.5 out of 10 by those who were not advised. In terms of those who are advised, financial advisers were rated third in terms of the professions behind Doctors and Dentists. This highlights the stark difference of opinion between those who have an adviser and understand the role of financial advisers with those who don't have an adviser and do not understand the value that they can deliver. This research highlights the benefits derived by clients of financial advisers including:

- being better planned,
- being happier with their investments,
- having a financial coach to help with major life decisions,
- obtaining better financial knowledge/literacy and therefore better understanding the key financial decisions that they are making,
- providing peace of mind and,

- assisting with facilitating a path to financial freedom.

This dichotomy between the advised and the unadvised needs to be overcome if more Australians are to make the most of their personal financial opportunities through accessing quality financial advice.

2. Industry Transition and Impact Upon Older Advisers

In terms of the question raised by the Chairman about older advisers leaving the industry earlier and the slower entry of new advisers, we do not have access to specific research on this particular matter, however we can provide the following information in support of this position.

Analysis of our own members highlights the following key facts:

- 46% of AFA practitioner members are aged 50 or older.
- 23% of AFA practitioner members are aged 60 or older.
- 4% of AFA practitioner members are aged 70 or older.

The above analysis indicates that financial advisers will work until an older age, and many actively choose to remain part of the profession and to be active in the profession well beyond the typical retirement age. We believe that this is an important element of this profession and ensures that there are older people around in the industry in order to pass knowledge down to the younger advisers. Amongst these older advisers they are much less likely to have a university degree and also less likely to be in agreement with undertaking additional higher education.

For a profession in transition, we believe that it is important to retain these advisers in the marketplace in order to ensure that there are a sufficient number of advisers available to meet the needs of consumers and to ensure that financial advice is affordable.

At present, new financial advisers come from a range of backgrounds, including those with a university degree and also those who are career changers. The stream of university graduates is expected to continue, however this source is certainly under stress given all the recent negative media coverage. At present there are only a limited number of dedicated financial advice tertiary education programs and these are not well supported. It will take some time before we are able to claim a strong flow of high calibre university graduates coming directly into the financial advice profession.

Our analysis is not based on quantitative research, but rather a variety of sources of information that all serve to highlight the importance of a sensible and pragmatic transition pathway towards a mandatory degree pre-requisite for new entrants and an appropriate increase in the education requirement for existing advisers.

3. Professional Standards Council

The Professional Standards Council presents a vehicle for the formal recognition of professional associations through regulatory means. The application process through the Professional Standards Council is rigorous and comprehensive. The Professional Standards Council identifies the key elements that would typically be expected of a profession.

The Professional Standards Council processes applications for Professional Standards Schemes, which goes above and beyond what appears to be the purpose of recognition of a professional association through the Corporations Act. Approval of a Professional Standards Scheme also includes the establishment of a limit on civil liability. This invariably involves a significant workload with respect to professional indemnity insurance, historical insurance claims and actuarial considerations. There are some significant implications with respect to the financial advice profession that would need to be addressed before this was considered, including the implications of such a scheme in the context of the Corporations Act and the role of licensees, who under the Corporations

Act are liable for consumer claims.

We believe that further consideration of the option and the criteria set out by the Professional Standards Council is appropriate.

4. Industry Working Group Documentation

Senator O'Neill asked that we provide documentation with respect to the recommendations of the AFSL Industry Working Group and how this might differ from our own position. We have discussed this request with the applicable team in Treasury and they have suggested that the PJC raise this directly with them.

5. Conclusion

We thank you for the opportunity to present to the inquiry and to provide additional information as per this document.

Should you have any questions, please do not hesitate to contact me

Yours sincerely,

Phil Anderson
Chief Operating Officer