



5 September 2014

Committee Secretary  
Parliamentary Joint Committee on Corporations and Financial Services  
PO Box 6100  
Parliament House  
CANBERRA, ACT 2600

Email: [corporations.joint@aph.gov.au](mailto:corporations.joint@aph.gov.au)

Dear Committee Secretary,

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

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The Association of Financial Advisers Limited (“**AFA**”) has served the financial advice industry for over 65 years. Our aim is to achieve *Great Advice for More Australians* and we do this through:

- advocating for appropriate policy settings for financial advice
- enforcing a Code of Ethical Conduct
- investing in consumer-based research
- developing professional development pathways for financial advisers
- connecting key stakeholders within the financial advice community
- educating consumers around the importance of financial advice

The Board of the AFA is elected by the Membership and all Directors are required to be practising financial advisers. This ensures that the policy positions taken by the AFA are framed with practical, workable outcomes in mind, but are also aligned to achieving our vision of having the quality of relationships shared between advisers and their clients understood and valued throughout society. This will play a vital role in helping Australians’ reach their potential through building, managing and protecting wealth.

Thank you for the opportunity to provide a submission on the PJC Inquiry on proposals to lift the professional, ethical and education standards in the financial services industry. We recognise that this Inquiry is very timely as there is a significant focus upon these issues at this time. This Inquiry provides the prospect of crystallising a framework to move forward on this important issue.

Our goal at the AFA is to achieve *Great Advice for More Australians* and inherent in that is raising the public perceptions of advice through engaging and educating consumers, whilst at the same time, continuing to provide leadership to advisers on the standards and behaviours required of them to earn the public’s trust and support.

Throughout our submission the terms financial adviser, financial planner, adviser and planner should be taken to have exactly the same meaning. They are completely interchangeable.

In this submission we address the following issues:

- Background to the inquiry
- Education, qualification and experience requirements
- Professional and ethical standards
- The implications of raising qualifications and professional standards
- The structure of the AFA
- The role of professional associations and recognition by ASIC

## 1. Background

Trust in financial advice is absolutely critical. The events of 2014, including the level of media coverage related to the FoFA Amendments and the release of the Senate report into ASIC, have had a significantly negative impact upon the public perception of financial advice. This is a poor outcome for consumers, the country and for financial advisers. It appears the impact has been greatest on those who don't have a financial adviser relationship, and this group represents approximately 80% of Australians. They have no context within which to assess the media driven information. They are more likely to take what the media has said about the industry (be it accurate or inaccurate), or about specific advisers, and assume that this is typical across all advisers and advice. They struggle to understand what financial advice is, what the experience of getting advice will be like, what it should cost and therefore what value it delivers.

Research undertaken by the AFA in 2010 demonstrated that consumers with financial advisers understood the role of their adviser, trusted them, highly valued the advice they were given and were happy to pay for it. These consumers were happier with their investments and had greater peace of mind than those who were trying to navigate the complex world of investment and insurance without the help of a financial adviser. The research clearly demonstrated that there is great value in financial advice.

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. This inquiry is an appropriate step in considering how the industry may address adviser education and professional standards as one step in bridging this gap.

## 2. Education and Experience Standards for Financial Advisers

***The AFA strongly supports an increase in education standards and considers this Inquiry to be a tremendous vehicle to get broad support for a new path forward.***

There is broad recognition and support for the need to increase the education standards within the financial advice profession both at the entry and ongoing practitioner levels. There is a reasonably universal view that as a profession, the education entry standard should be a university degree. The AFA supports the goal of a relevant university degree as the entry criteria for new financial advisers entering the financial advice profession, however we do not believe that this goal can be achieved in the short term. The reasons for this are as follows:

- The education marketplace for financial advice degrees is currently immature. Some dedicated financial planning courses exist, however they are not well supported and typically the entry level is reasonably low. Currently there simply isn't a high level of demand or throughput for financial advice degrees.

- Whilst life experience isn't mandatory for someone operating in the financial advice profession, it is often considered by clients to be desirable as it better enables an adviser to have the empathy, understanding and emotional intelligence integral to helping clients develop new behaviours to improve their financial position.
- The recent avalanche of negative media coverage about financial advice will invariably impact upon the interest in pursuing a career in financial advice, or enrolling in a financial planning degree.
- The typical financial advice business model is not based upon the existence of roles that enable new entrants to gain experience prior to being in front of clients. Whilst roles such as para-planners and client service associates do exist, they are not necessarily a direct pathway into financial advice. In some models these roles are inadequately exposed to consumer interaction to fully meet the experience requirements for financial advice roles.
- The current adviser market place is skewed with a number of older advisers who can be expected to leave the profession before a sufficient supply of University graduates will be qualified and available to replace the existing advisers.

As baby boomers approach retirement in increasing numbers over the next few years, there is no question that we need to ensure that there is an adequate supply of competent financial advisers to meet the demand for financial advice. It will be critical to ensure that we have an adequate volume of new advisers entering the profession as existing advisers depart. Thus any fundamental change to the education standards needs to be done in a manner where transition arrangements will ensure that clients can still access the financial advice that they so clearly need within the timeframe that is relevant to their life stage.

We strongly believe that financial advice education needs to contain a balance of technical education and also emotional intelligence skills. Client relationship skills are essential in financial advice. Financial advisers who have strong technical skills, but poor client relationship skills rarely succeed in driving the behavioural changes required of their clients to reach their financial goals including intangible outcomes such as peace of mind, confidence and security. The research shows that these are things that clients deeply value in their relationship with a financial adviser. Ensuring these skills are incorporated in University based financial advice degrees is essential. It is important to remember that much of the benefit from financial advice comes from the client successfully adopting good money-related behaviours and it is the relationship and coaching element within an advice relationship that creates the environment for this to begin and be maintained. It takes unique skills to create behavioural change with clients.

The current entry-level requirement, known as RG 146 is basically at diploma level, although the existence of some less strenuous versions of this course has led to much media discussion about a qualification that can be gained in 8 days or less. This does not reflect the majority of the marketplace, however this emphasises the fact that the minimum level needs to be raised significantly and the training delivery needs to gain a level of standardisation to ensure that they are equally applied. We believe that action on this front can be taken in the short term.

## Entry Level Requirements

In the table below we have set out our view on how education/qualification and experience standards could be raised in the near term.

Period	Qualification Requirement	Experience Requirement	Other Requirements
Commencement to 30 June 2016	Diploma	Nil	Completion of National Competency Exam, and Ethics Module.

Period	Qualification Requirement	Experience Requirement	Other Requirements
			Completion of an Advanced Diploma by 31 December 2017
1 July 2016 – 30 Dec 2019	Advanced Diploma or equivalent and Completion of all mandatory Knowledge Requirements	One year approved experience	Completion of National Competency Exam and Ethics Module
31 Dec 2019 onwards	Relevant Degree or Equivalent and Completion of all mandatory Knowledge Requirements	Two years approved experience	Completion of National Competency Exam and Ethics Module

In addition we are suggesting that ASIC take the necessary steps to ensure that all current Diploma of Financial Planning courses have adequate course content and assessment criteria.

### Education Requirement for Existing Advisers

We support an increase in the minimum level of qualifications required for existing advisers however this needs to consider their experience in the industry and an appropriate transition timeframe. For existing advisers we recommend that the following options are offered and they have until 1 January 2019 to achieve at least one of the four options:

- Completion of the Advanced Diploma of Financial Planning.
- Completion of a professional certification which is at an Advanced Diploma or higher level and is completed via assessed coursework.
- Completion of a once-off national competency exam.
- A formal assessment by an accredited assessor.

It is important that existing advisers will get value from undertaking additional education and therefore there should be some flexibility to develop training programs that facilitate a specialisation in an area that is most relevant to them (i.e. risk specialists or aged care).

The AFA also strongly encourages financial advisers to pursue professional designations and further higher education, such as the Master of Financial Planning. This is exactly the approach that a number of large licensees have recently announced. We applaud licensees seeking to set their own standards above the minimum set by Government. Similarly the AFA as a professional body will continue to actively encourage advisers to pursue professional qualifications above the minimum.

### Ongoing Professional Development

A commitment to ongoing professional develop is equally critical. Professionals need to maintain their competency and should be looking to continuously develop their skills. In this regard we propose the following requirements:

- Minimum 30 hours per year or 90 hours over a triennium to be achieved through a variety of learning situations to include workshops and on-line learning/assessment.
- Mandatory ethics component each year with time equivalent of 4 hours.

We believe that it is preferential that CPD targets are measured in terms of hours and where it is done on the basis of points that one hour can represent only one point. This is a key issue where the profession needs to demonstrate transparency, and thus we oppose models where an attendee might get more points than hours attended.

It is also appropriate that the various professional bodies be required to recognise the points granted by other professional bodies which reflects the overlapping memberships across the adviser/planner population.

We believe that the key requirements addressed above should be incorporated into the law, although some of the specific course and experience approval requirements could be done through professional self-regulation. Importantly, these new standards need to apply to all advisers, and this can only happen if they are a legislated requirement.

There will be significant detail involved in implementing a change as fundamental as what is proposed, which will need to be done in a careful and considered manner. In this submission we are placing a focus upon the high level principles, rather than the detailed implementation considerations.

We expect that this detailed implementation planning can be undertaken by the Government's recently established AFSL Working Group.

### **3. Professional and Ethical Standards**

***Professional and ethical standards are critical and will require a multifaceted approach to ensure that consumers can have greater confidence in financial advice.***

It is our experience that education standards, whilst important, will not on their own achieve all the outcomes intended. Cultural change, as proven through behaviour, is the ultimate goal and professional association membership, peer-to-peer learning experiences and practical training and supervision are also needed if we are to be successful in achieving the universal trust of consumers.

Ensuring that trust and confidence returns to the financial advice profession is also dependent upon proof that financial advisers operate within boundaries of behaviour that would be expected of a professional. The behaviour of an individual financial adviser is likely to be influenced by the following key stakeholders:

- Their licensee
- One or more professional associations
- The product providers and their representatives that they work with
- Education providers
- Colleagues and fellow financial advisers
- The regulator and other bodies such as external dispute resolution services

Each of these stakeholders influence the behaviour of financial advisers and therefore they all have a role to play in ensuring that standards in the profession are kept at the highest level. A strategy to review and improve the professional and ethical standards in the financial advice profession needs to address the role that each of these stakeholders play in the context of the following key professional and ethical considerations:

- Acting with integrity that demonstrates honesty and ethics. The conduct of financial advice professionals must reflect favourably upon the financial advisory profession and serve as an example to others.
- All actions that an adviser takes must reflect the best interests of their clients. They must always prioritise the interests of their client above their own interests. Emotional intelligence skills are particularly critical in order to genuinely understand the client's needs and objectives.
- Conflicts of interests are inherent in the financial advice industry and therefore they must be clearly identified and managed appropriately or avoided.
- Remuneration for financial advisers must represent fair value for clients. Financial advisers are

professionals and need to be paid accordingly.

- It is important that financial advisers play a key role in building the financial literacy of their clients so that their clients can make informed decisions about their financial affairs.
- Financial advisers need to clearly establish the service level that they will provide to each client and then need to ensure that these service commitments are delivered.
- Financial advisers have an obligation to maintain their professional competency and to only provide financial advice in areas where they are appropriately qualified and authorised.

There is no question that the vast majority of advisers operate with integrity and demonstrate the required ethics. Nonetheless we believe that the importance of integrity and ethics can be reinforced by the provision of specific and focused training.

Codes of conduct, whether belonging to a professional association or a licensee, also play an essential role. This is a set of standards that members can hold themselves and their colleagues accountable to that sit above the minimum legal standards expected of an adviser. Working as a profession, ensuring that everyone lives up to the standards expected of them, is something that financial advisers can take collective responsibility for through self-regulation via professional bodies. We do note however that membership compulsion would improve the ability of a professional body to impose strict and meaningful penalties where the code of conduct is breached.

#### **4. The Implications of Raising Qualifications and Professional Standards**

Raising the education and qualification standards for financial advisers will undoubtedly have an impact upon competition and cost in the financial advice marketplace. The changes proposed above and those already announced by a number of large licensees will have significant implications for the profession and the marketplace for financial advice. We are concerned that if these changes are pushed too quickly that we will see a significant reduction in the number of practicing advisers. This reduction in the supply of advisers may also create a significant increase in the cost of advice placing it out of the reach of many Australians that desperately need it. Achieving the right outcome of moving the entire profession in the right direction and also maintaining the capacity to meet the consumer need for financial advice will mean that the transition needs to be pragmatic and that the regulator needs to have some powers to address complications that arise on the journey.

As a result of this proposed change, older advisers will leave the profession at a faster rate than they otherwise would have and new advisers will join at a slower rate (at least initially) than would otherwise have been the case. This means that there is likely to be a reduction in financial adviser numbers for a period of time. In addition financial advisers who have to complete additional education requirements are likely to have less time available to advise clients. These are all key factors that will impact upon access and affordability of financial advice. We believe that the short to medium term implications if well managed are in aggregate a reasonable price to pay for the achievement of the longer term objective which will see increased consumer trust in financial advice and a strong flow of new and highly educated financial advisers.

We believe that the bigger implications will flow from the raising of education and qualification standards. It should, however be noted that the profession already has many outstanding individuals. These are people from a range of different backgrounds with outstanding educational standards who really believe in financial advice as a profession. For them, these changes will have no impact.

It should be noted that the implications for competition and cost will be highly impacted by the approach to addressing the issues of qualifications and professional standards. We believe that the best outcome with respect to professional standards would be one that is based upon a principles approach with a predominantly self-regulation framework.

The regulation of any change in standards needs to be focussed upon the achievement of the end goal and be more facilitative of the profession in undertaking this journey.

## 5. The Structure of the AFA

The Association of Financial Advisers is a professional association for financial advisers. It is a not-for-profit company limited by guarantee. The Board is comprised of a minimum 9 directors, who are all practicing advisers who have been members of the AFA for at least 3 years. The Board is appointed by the members for a two year term. The President is limited to serving in that role for a single two year term. The Board is accountable to the members and is required to hold an Annual General Meeting that is traditionally held at the same time as the Annual Conference.

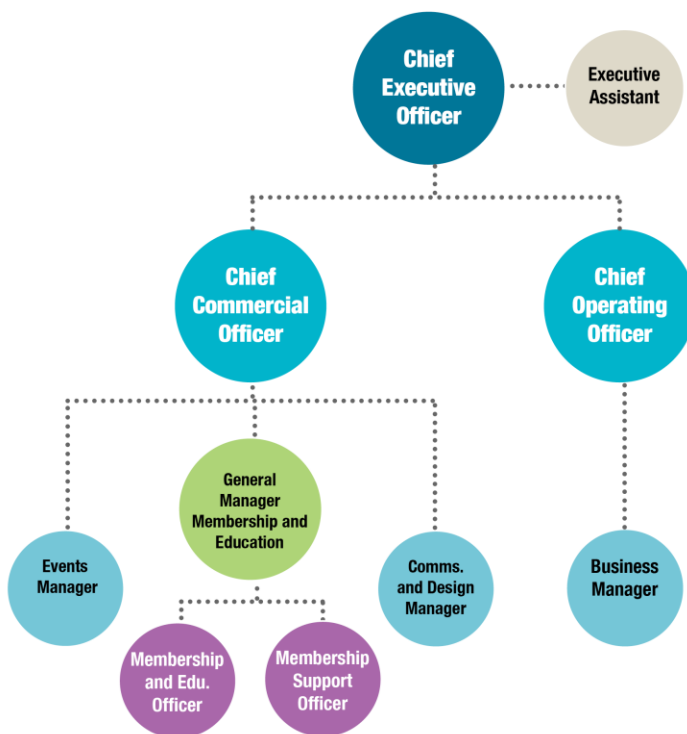
The Board positions include the following:

- National President,
- Vice President,
- Treasurer,
- Six State directors
- At present there is one invited director.

The AFA have an Executive Committee Comprising the President, Vice President, Treasurer and CEO who have a more active role in determining the positions taken by the AFA

The AFA has a team of ten full time employees as per the following diagram:

### AFA Structure



## **AFA Membership**

The AFA currently has over 2,500 members, who range from University students just preparing to start their career in financial advice, through those who are within the industry and looking for an opportunity to commence financial advice all the way through to retired members who still have a desire to remain involved in a profession that they have valued for such a long time. Historically, practicing advisers represent around 80% of the total membership.

## **Campus AFA**

Campus AFA is the AFA's professional development offer. It provides a variety of professional development solutions for all financial practitioners and supports the AFA's core belief in lifelong learning. We believe that the great advisers get the balance right between technical skills and knowledge, and how those skills and knowledge are practically applied.

Campus AFA serves a diverse range of members and financial advice businesses. We recognise that different practitioners come from different academic backgrounds and are seeking different types of professional careers. The AFA education philosophy aims to grow the knowledge, skills and confidence of the financial advice community.

## **Fellow Chartered Financial Practitioner (FChFP)**

The AFA's professional certification is the Chartered Financial Practitioner and is awarded through the Asia Pacific Financial Services Association (APFinSA) of which the AFA is a founding member country. The AFA also offers the Chartered Life Practitioner (ChLP) designation, which is focussed at risk specialists.

The Fellow Chartered Financial Practitioner (FChFP) designation is deliberately set at masters-level (AQF 9) and is focused on assisting financial advisers to deliver quality financial advice solutions to consumers while assisting them run profitable and sustainable financial advice businesses. The AFA professional designations strike the balance between acquiring technical academic rigour and knowledge with the practical application of post-graduate applied practice development.

The AFA professional designations are delivered through an online Learning Management System (LMS) provided by our principal education partner, Kaplan Professional who is the largest provider of financial services related qualifications and continuing professional development to the industry.

## **6. The Role of Professional Associations and Recognition by ASIC**

There has been a lot of comment recently about the potential introduction of a requirement for mandatory membership of a professional association. A number of licensees have already headed down this path, by mandating a requirement for their advisers to be a member of an approved professional association.

Our historical position on this issue has been one of promoting and encouraging voluntary membership, based upon a practitioners view of the value that they derive from being a member. The more proactive role of licensees in mandating membership and recent calls for a legislated mandatory membership requirement significantly changes the way the profession needs to think about this issue. As stated above the role of professional associations in setting standards for behaviour is critical. We support the approach being taken by licensees, however we do believe that it is timely for the Government to consider whether mandatory membership should be considered as part of a broader drive towards professionalism.

We believe that the core role of professional associations are as follows:



- Through a code of conduct, set the minimum standards of professional behaviour and conduct,
- Promote and encourage education and professional development,
- Supervision and monitoring of financial adviser conduct, including responding to complaints.
- Playing an active role to ensure that bad apples are appropriately dealt with,
- Advocating for the best interests of consumers in receiving financial advice
- Advocating for a legislative and regulatory framework that facilitates achieving *Great Advice for More Australians*.

## **Recognition of Professional Associations by ASIC**

We are not convinced of the need for financial advice professional associations to be recognised by ASIC. At present there are three main associations along with the accounting bodies who also have members who are actively involved in the financial advice marketplace. We are not convinced that there is any requirement for official accreditation. Nonetheless we recognise that if the Government were to consider mandating membership of a professional association, then accreditation would be necessary and some criteria would be required. At current the licensees who are mandating membership for their advisers are nominating which associations are acceptable. Any Government based accreditation could be based upon the associations that are commonly accepted by the larger licensees who have already mandated membership.

ASIC currently has a regulatory guide with respect to the recognition of codes of conduct (RG 183). If the Government went down the path of mandating membership and also wanted to establish criteria for recognition of a professional association, then RG 183 might be one reference point. It might be a guide to some of the things to consider in terms of defining criteria for recognition of a financial advice professional association, however we believe that they serve different purposes. RG 183 is strongly focussed upon consumers as the key beneficiary of the approved Code. Professional associations must have regard to this as a primary concern, yet any Code needs to facilitate professional engagement of Members such that they are an active participant in their professional body. Without that crossover the relevance of the Code in guiding behaviour is diminished. In our view, the criteria should include at least the following:

- A strong Code of Conduct.
- Appropriate procedures about who is permitted to join the association.
- A commitment to education and ongoing professional development including the existence of courses and designation that assist in the improvement of competency standards.
- An active advocacy program.
- A regime of supervision and monitoring of members.

Any criteria that are defined for the recognition of a professional association, should contribute to an inclusive approach to the development of the profession. There is more to be gained for all stakeholders by taking an inclusive approach rather than exclusion, as it is far easier to influence those on the inside than those left out of the regime. This issue should not be used as a vehicle for competition between the professional bodies. Collaboration will be more effective.

It is also recognised that the inclusion of professional associations is an issue that needs to be addressed as part of the development of the financial adviser register.

## **7. Conclusion**

We thank you for the opportunity to provide feedback on this inquiry. We believe that this issue is a very important one and that this Inquiry will play a key role in driving towards a solution that can meet the expectations of the Australian community.

Should you have any questions, please do not hesitate to contact me on [REDACTED].

Yours sincerely,

**Brad Fox**  
**Chief Executive Officer**