



FINANCIAL  
SERVICES  
INSTITUTE  
*of Australasia*

7 May 2015

Financial Services Unit  
Financial System and Services Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

**Re: consultation paper — Lifting the Professional, Ethical and Education Standards in the Financial Services Industry**

Finsia welcomes the opportunity to provide a submission to the Treasury in its review of the recommendations made by the Parliamentary Joint Committee on Corporations and Financial Services (PJC), following its inquiry into proposals to lift the ethical and education standards of the financial advice industry.

As the leading professional association for financial services in Australia, a significant component of Finsia's charter is to advocate on behalf of its members in respect of current policy developments.

Through consultation with our members Finsia has found broad support for the key reforms proposed by the PJC. In particular, Finsia supports a national exam and structured professional year be instituted for advisers as prerequisites to registration.

Finsia's support of a national exam is guided by the principle that a universally applied standard for establishing professional competence is something that consumers of advice can readily understand. This reform will do much to restore community confidence in the probity of financial advisers in the wake of recent scandals.

The desire among financial institutions to improve the quality of advice is genuine, and Finsia is a vocal supporter of many of the reforms considered by the current review.

While these reforms are crucial, Finsia cautions Treasury and the industry that there needs to be a coherent and coordinated regulatory response to the increasingly digital delivery of financial products and advice.

Finsia also draws attention to the Financial System Inquiry recommendation that an integrated approach to product design, distribution and advice will contribute to improving consumer standards.

The financial advice industry is experiencing remarkable change because of digital technologies. The goal of regulation should be to ensure that consumers are able to access low cost, tailored and reliable advice.

Finsia would be more than happy to provide further information and/or supporting evidence if required. Please do not hesitate to contact my office on 02 9275 7911 for further discussion.

With kind regards,

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## **Submission — Lifting the Professional, Ethical and Education Standards in the Financial Services Industry**

Finsia responds below to the questions raised by Treasury of greatest concern to our members. For further detail, please refer to our submission to the original PJC inquiry: <http://www.finsia.com/indepth/publications/submissions>

### **Section 3 — Education and training standards of financial advisers**

#### **Question 3.2**

Is holding a relevant Bachelor Degree the appropriate minimum education requirement? What is a “relevant” Bachelor Degree? Would this requirement limit the ability of other degree-qualified individuals to become financial advisers?

#### **Response**

Finsia generally supports this requirement. Finsia agrees that the current minimum education requirement of a diploma-equivalent is too low and insufficient in its knowledge requirements. As such, Finsia supports mandating an undergraduate degree as a minimum qualification for financial planners who advise on Tier 1 products.

However, Finsia queries the definition of ‘relevant Bachelor Degree’. Previously we have noted, and continue to adhere to the view, that a requirement to hold a financial planning degree poses significant barriers to entry.

Finsia’s industry research indicates that many financial planners re-train to move into the profession, particularly women. Given that the cost of undergraduate education is expected to rise, as well as HECS study limits, to require a second degree would be to impose a material start-up cost that the individual is required to bear. This is particularly concerning for women, who are already materially under-represented in this sector (only 27 per cent of women are advisers, as opposed to being 54 per cent of the general financial services workforce).

While mandating the completion of an undergraduate degree is an ideal minimum requirement, the system should support a degree of flexibility as to which disciplines are recognised to allow multiple pathways to enter the industry. To meet the professional standards required to advise clients, advisers should successfully complete a professional year and the proposed national exam.

#### **Question 3.4**

What are the practical implications of requiring new advisers to undertake a structured professional year at the outset of their careers as financial advisers, as a way to develop their on-the-job skills?

#### **Response**

Finsia supports this requirement. A structured professional year should be mandated for all professional advisers whether they have obtained a cognate degree or not. This requirement allows for multiple entry points to becoming a financial adviser, the importance of which is described above.

In our submission to the original PJC inquiry we recommended a higher requirement of two to five years of supervised mentoring for those without a cognate degree.

Finsia does not anticipate that this requirement will be onerous to administer. As we observed in our original submission, many of the major employers already have

supervisory structures in place or are able to access them externally through an industry association.

## **Section 4 — Establishment of a standard-setting body for the educational framework**

### **Question 4.1**

What are the practical implications of FPEC performing this role? For example:

- > How would FPEC interact with regulators and government agencies, such as ASIC, and education bodies?
- > Would FPEC need to be supported by legislation in order to perform its role?
- > Is the recommended FPEC membership appropriate?

### **Response**

The proposed composition of the FPEC, including professional associations with approved accreditation frameworks, academics and consumer advocates is endorsed by Finsia. We reiterate our initial view that the FPEC should not comprise financial adviser training businesses or training arms, to avoid possible or perceived conflicts of interest.

The PJC report recommended that the FPEC take advice from ASIC about international trends and best practices to inform curriculum review. There should be requirements for the form of these interactions and their frequency.

## **Section 6 — Exam**

### **Question 6.1**

Do you consider a registration exam should be a component of a framework to improve professional standards? Should the exam apply to both existing and new advisers?

### **Response**

Finsia supports a national examination should be in place for advisers on Tier 1 products for the following reasons:

- > That no matter where/what an adviser has studied, their knowledge has been tested against an external benchmark. An examination provides assurance that everyone in the industry has cleared the one gate.
- > An examination provides an alternative pathway into the industry for those with non-cognate undergraduate degrees while also benchmarking their technical competence.
- > The community understands the national exam as an independent test of competence.

The requirement to pass a registration exam should apply to existing and new advisers. As such, Finsia supports the introduction of a transition period by which advisors would need to have met this standard.

### **Question 6.3**

What content should be covered in the exam?

### **Response**

Finsia believes that both theoretical concepts and applied skills should be examined. In particular, Finsia believes that the assessment standard and content difficulty of the examination should be in line with *at least* an AQF level 7 standard (Bachelor's Degree). Finsia also advocates that the key regulators in the vocational and higher education sectors be required to assess the content of an exam to ensure that material improvement in professional knowledge and standards is achieved.

### **Question 6.4**

Is FPEC the appropriate body to set the exam? Who should be responsible for invigilating the exam? Who should be responsible for marking the exams?

### **Response**

Finsia believes that the FPEC is the appropriate body to set the exam with guidance from ASIC and education regulatory bodies. The FPEC should also be responsible for invigilating and marking the exams.

As explained in our submission to the PJC inquiry, Finsia believes that the examination should be reviewed annually.

## **Section 7 — Ongoing professional development**

### **Question 7.1**

What are the practical implications of the proposed ongoing professional development requirements?

### **Response**

Finsia supports a mandatory requirement for ongoing professional development. The recommendation by the PJC that professional development is set by professional associations according to requirements set by the PSC will go some way to achieving a level of cross-industry standardisation.

In our submission to the PJC we noted that the objectives of professional development need to be better articulated to deliver recognised standards and professional development plans that are tailored to genuine development needs.

As communities of practice, professional associations are well equipped to meet these objectives, with coordination and reference to the FPEC.

In Finsia's view, it is essential that advisers contribute to a community of practice. Ongoing professional development should move beyond updates or seminars about regulatory change and best practice that can be received passively. Practitioners should demonstrate genuine contribution to industry.

### **Question 7.2**

Are professional associations well-placed to administer ongoing professional development requirements?

### **Response**

Finsia believes that professional associations are well-placed to administer the ongoing professional developments envisioned by the PJC. In particular, it is professional

associations that are able to provide the community of practice, codes of conduct and accreditation frameworks necessary to assist individuals identify appropriate development plans.

The challenge that professional associations face is to expand the methodologies behind their professional development programs so that they are informed by experiential learning approaches.

## **Section 8 — Professional and ethical standards**

### **Question 8.2**

What are the practical implications of requiring that a code of ethics be approved by the PSC? Are there alternative approaches that would be more appropriate or effective?

### **Response**

The most significant implication of this proposal is that financial advisers will be recognised as professionals.

While financial advisers play an important role in the wider community, and increasingly in the management of retirement incomes, regulatory measures that affect the whole of the value chain are required. These should align ethical considerations with responsible product development and delivery of financial advice. .

The primary focus should be on measures aimed at restoring community confidence in the probity of the advice that they receive. In Finsia's view, the establishment of a national exam for financial advisers and a professional year are the most critical reforms.

### **Question 8.5**

What are the practical implications of requiring professional associations to hold a PSC-approved scheme?

### **Response**

Finsia is cautious about this recommendation and the one considered in the response to question 8.2, above. In Finsia's view, the issues that these recommendations seek to address can be resolved through other reforms.

One implication of the requirement that professional associations establish PSC-approved schemes is that it may lead to anti-competitive effects.

Finsia strongly believes that there should be competitive tensions between professional associations that are relevant to financial advisers.

Professional Standards Schemes, as Treasury notes, are legal instruments that cap the occupational liability of professionals who take part in an association's scheme if a court upholds a claim against them. While this is wholly appropriate in the case of professions such as law or accounting, Finsia queries whether this appropriate for financial advisers.

As the Financial System Inquiry FSI recommended (recommendation 21):

'Introduce a targeted and principles-based product design and distribution obligation.'

Upstream obligations affecting product issuers is critical and should be the focus of the industry. The reforms recommended by the FSI are attuned to the role that major financial institutions play in the distribution of financial advice.

**Question 8.9**

What are the practical implications of mandating membership of a professional association? Are there implications arising from the increased responsibility on professional associations rather than on the licensee?

**Response**

Finsia does not support the requirement that membership of a professional association be mandatory for every financial adviser. Finsia believes that this undermines the spirit of joining a professional association in the first place; membership should be only of one's volition, and not because it is a mandatory requirement (legal or otherwise).

The role of professional associations should be for committed practitioners to contribute to a community of practice. This contribution is as much about experienced practitioners giving back as it is about junior practitioners shaping the future direction of the industry.