

Submission to the consultation process on the recommendations of the PJC on Corporations and Financial Services inquiry into proposals to lift the professional, ethical and education standards in the financial services industry

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Conflict of Interest Declaration:

Please note that Dr Mark Brimble is a member of the Faculty at the Griffith Business School and engages in research, teaching and consultancy with a range of industry organisations and practitioners. He is a CPA, a Fellow of Finsia, a member of the FPA and Chair of the Financial Planning Education Council. The views in this submission, however, are those of the author alone.

1. Scope of this submission

This submission offers comments on a number of the questions posed in the consultation paper. These are predominately those that deal with education related matters. A specific section on the current FPEC is also provided as requested by Treasury. Other questions are not addressed.

Please note that the views contained in this document are those of the author alone and not those of either Griffith University or the Financial Planning Education Council.

2. Overall response

Overall, I am supportive of the PJC report and the direction taken. In my view, many of the matters raised as means of 'professionalising' financial advice (higher education standards, membership of a professional association, CPD, etc) have been discussed for a number of years and have not been able to be progressed *across* the sector. While traction has been obtained and progress made in some segments of the sector (in particular the FPA), there remains a significant degree of fragmentation in terms of the standards applied to financial planners. This provides further complexity to the consumer in assessing advisers and advice. For example, planners training levels range from less than a week to many years (up to and including doctoral studies) as the legislated training requirement (RG146) remains at an extraordinarily low level, both in volume and level of learning. This reflects poorly on the sector and the regulator, while despite agreeing for some time on the need to improve this, have failed to find a means of doing so.

Thus, there are four overall points I wish to make:

1. **Education requirements must be increased:** Financial planning is a complex profession and is truly multi-disciplinary. The body of knowledge is broad (tax, legal, investments, economics, behavioural, financial planning practice, etc), ever changing, lacks a robust empirical and theoretical grounding and is enveloped by complex behavioural and psychological issues of dealing with consumer in relation a very sensitive issue – money/wealth/well-being. Thus, it is

simply bewildering that high education requirements (entry, transition and ongoing) are not in place.

2. **Specificity around the education requirement is critical:** Determining the 'level' of education requirements is not a simple task and cannot be achieved by simply picking an AQF level. It is argued that in addition to the *minimum* AQF level (Level 7 is agreed with in this regard), the body of knowledge and skills to be contained within the qualification also needs to be articulated, assessed and audited. Furthermore, the volume of learning also must be spelt out to ensure sufficient breadth and depth of learning is obtained. Furthermore, the policy framework within which this is operationalised must also be reviewed (to ensure the curriculum is robust and actually undertaken at the requisite AQF level). It is argued that the lessons of RG146 are heeded in this regard and a robust educational framework and accreditation process be put around the training standards.
3. **Build on existing frameworks:** In relation to point #2 above, it is suggested that efforts be made to build on existing frameworks including the framework of professions (PSC) and the education standards (FPEC and the FPSB global body of knowledge). Financial planning has no particular monopoly on these issues and given the substantive nature of these frameworks and the need to progress the industry it seems logical not to reinvent the wheel.
4. **Success of the FPEC framework:** In relation to the proposed new FPEC, I advise that the success of the current FPEC is based on the independent and collegial nature of the council. Members are independently appointed based on their interest and expertise with a balance of members with education, practitioner and professional body backgrounds and skills. Thus is not per se a representative or lobby group.

Thus, I see the PJC report as providing a useful and logical framework for progressing many of the issues that financial planning as an industry is struggling with. It must be stressed however, that much more detail is to be developed and care should be taken to build on existing structures, frameworks and standards rather than reinvent as this will likely extend the implementation timeframes and increase the risk of failure.

3. Financial Planning Education Council

The establishment of the current FPEC has been a six plus year process that has been thorough and consultative. The process began with the release of a consultation paper in 2009 (FPA, 2009) and a follow up white paper in 2010 (FPA, 2010) which led to the FPA establishing the Financial Planning Education Council. This signalled the move to an 'approved degree' for membership and pathway to the professional designation program as the argument was made that new entrants needed to undertake a program of study in financial planning, rather than simply be qualified at the degree level. This, of course, raised the question of what should a degree in financial planning look like and with no such framework in existence the FPEC's first point of business was to develop a financial planning curriculum and accreditation framework with AQF level seven as the benchmark.

Using the medicine and accounting professions as a starting point, FPEC over the course of a year developed and consulted on a national curriculum and accreditation framework. This resulted in a comprehensive frame work (provided as an appendix) that includes:

- Eight required knowledge areas – equivalent to eight AQF level 7 courses in terms of the volume of learning;
- Requirements in relation to policy, academic staffing, engagement with industry (curriculum and program design and maintenance);
- Aspirational requirements in research led teaching and work integrated learning;
- Other desired areas of study (eg accounting, marketing, economics, statistics);
- Reporting, update and review requirements; and
- An overarching accreditation process – documentation, site visit and stakeholder interviews.

This has resulted in 14 higher education institutions being accredited by FPEC and a number of others in process and/or consultation. These have been robust processes with many either enhancing curriculum to align with the FPEC requirements, or being required to do so as a condition of accreditation. Thus, the process and framework have provided a clear a robust signal to the market of what is required of a financial planning degree that seeks to provide entry to the profession for its graduates. This has undermined the ‘one course’ financial planning programs (degrees with only one course in financial planning) and superseded the DFS and AFS qualifications that often met RG146 requirements, but not the needs of the modern advice profession.

To its credit, FPEC has also several other lines of business that are ongoing in addition to the accreditations. These include a research grants program, an awards program, papers on transition arrangements/bridging programs and a working party looking at financial planning career awareness. This highlights the broader role that such a committee can play in developing closer links between the profession and the academic community in order to further the profession itself.

Indeed, it is also worth noting that these relationships (including the support for robust curriculum, research agendas, research led teaching and academic staffing) are a key outcome in terms of supporting the development of academic staff and expertise. It is argued that these things go hand in hand, in that without sufficient academics in financial planning, there will be few qualified to develop and run quality programs, few entering (or supervising) doctoral candidates in the field which will be the future in terms of teaching and research. Furthermore, it also clear that this field is under-researched, thus these initiatives will lead to more robust, evidenced based discussions that can inform the development of the profession.

In summary, it is suggested that the FPEC work to date be built upon by the new FPEC in both substance and form with the collegiate, expertise driven model of independence to be adopted together with a detailed and holistic approach to the education framework.

4. Responses to specific sections

1. Q3.1: The education framework can be designed to build in these other requirements either as core requirements or as separate requirements. For example, the TASA requirements are incorporated within the FPEC requirements currently. Thus, if a detailed curriculum and accreditation framework is developed this can be accommodated.

2. Q3.2: A ‘relevant’ degree needs to be very carefully specified in terms of content and skills required and the broader educational context within which this occurs. This should include the specific knowledge areas, the skills required to be developed, the volume of learning required, how these are assessed, and the staff and other supporting requirements that underpin the learning outcomes.

Caution is advised in this regard and relevance should not be determined at the discipline level (ie accounting, law, banking, finance), but rather at the detail of the curriculum. This will ensure the specific knowledge, skills and graduate attributes for and in financial planning are acquired in the 'approved' programs to support the development of the financial planning profession.

In relation to volume of learning, should this be determined to be an eight course equivalent of study that maps to the knowledge and skills requirements of the framework (as per the current FPEC framework) then this could be covered in a number of degree programs either as the sole focus of student (ie a bachelor of financial planning) or in combination with another major in a dual major or dual degree program (i.e. the BLaws/BCom combination). This will also suit those that already have obtained a degree in another field, where the financial planning curriculum could be delivered in a graduate program (graduate diploma or masters) as a transition pathway for career changers/career builders. This is in line with how other professions operate.

Thus, it is advised that the concept of 'relevance' in relation to the degree requirement be struck out of the discussion. Rather the conversation should be directed to what is the appropriate learning outcomes at AQF level 7 (and above) that need to be obtained and how are these obtained through a sequence of courses that build knowledge, skills and attributes of the graduate. Otherwise, I fear a race to the bottom, as per RG146, will emerge in relation to the quickest and nastiest way to complete the requirements will begin, with the learning outcomes of the graduate relative to the needs of the profession and the community deprioritised.

3. Q3.3: As noted above, I suggest the requirement is not to hold a relevant bachelor degree. Rather it should be to hold a qualification at AQF level 7 or above that is accredited by FPEC as meeting the program learning outcomes (knowledge, skills and attributes) deemed to be required for a financial planner. This could be in the form of a Bachelor Degree for new entrants or a Graduate Diploma or Masters for career changers or builders.

In terms of the impact of this, there are several perspectives to take. From the perspective of the new entrant, this will be transformational for the industry in the medium term for two reasons. First, the higher level of knowledge, skills and attributes that the new advisers will bring to the practice of financial planning cannot be underestimated. I have seen this as graduates of my current employer have transitioned into industry over the past decade. I can only imagine the impact of all new entrants being so qualified. Second, the move to a degree level training requirement as opposed to RG146 (potentially completed in 36 hours) will in and of itself be a barrier to entry that will, in my view, assist the industry as it will drive a positive selection bias for new entrants that see the value of being highly qualified and want to enter a profession. Indeed, the opposite is currently true in my experience where high quality candidates are turned off financial planning due to their perception of a lack of standards and professionalism as they have articulated to me. The downside in the short term may be the pipeline of new entrants, however with the number of students already in the pipeline and what I hope will be a concerted stakeholder wide effort to promote the career of financial planning with these new high standards, will see this grow.

From the perspective of the existing planner, issues obviously exist in terms of the time and cost required to be invested in education rather than in their business. On one hand, I am sympathetic to this for those who have run successful businesses over time with ongoing professional development/education. On the other hand, being a professional provides a privileged position in society, and this requires ongoing professional development, standards and currency. Grand-fathering is also problematic as advisers vary dramatically in terms of their qualifications, certifications, experience, CPD and audit outcomes. Thus, I suggest a more nuanced process for existing advisers be considered that creates a matrix of factors (such as those just listed) to determine education requirements required (beyond the ongoing CPD requirements). For some (with little experience and low qualifications) this may result in the need for an 'FPEC qualification' to be met, while for others (experience, formal and informal education, clean audit record, etc) may have to complete just the

registration exam. I do not propose the specifics of this here, rather suggest that a detailed, transparent and robust framework with the learning outcomes (knowledge, skills and attributes) in mind could be conceivably constructed as a minimum (licensees may require higher standards) that balances the objectives of the PJC, builds consumer confidence and considers the position of existing, and particularly experienced, advisers.

4. Q3.4: The practical implications will largely be driven by the nature of the PY. If, as I assume, this will focus on mentoring, supervised practice, commencement of study towards professional designations and preparation for any practice exam requirement (together with the usual business induction activities) then I see the impact as minimal. In my experience I see many businesses in this field that already doing such things, and some over a longer period than one year. For others, this may result in better outcomes in the medium term and also serve to improve the messaging around the profession for potential new entrants. Indeed, the door should also be left open for some, if not all, of the PY to be undertaken as an optional part of the education requirements through a work integrated learning (WIL) program. WIL has been evidenced to provide enhancements in learning outcomes as well as student confidence, self-efficacy and motivation (Freudenberg, et al 2010; Brimble et al, 2012). This would also assist in overall 'work-readiness of graduates which is a key issue for employers and improve the attractiveness of study in this field for new entrants. A full discourse on WIL is not possible here, however if required further information can be required at a later date.

In addition, there will be a role for professional associations in monitoring and training the mentor and supervisors also as these skills cannot be assumed to be present in all businesses.

5. Q4.1: I see this as more of a governance question, with the absolute 'interaction' to be determined by the form, structure and location of the FPEC. Notwithstanding this, I see a possibility of having a stakeholder level of governance that sits apart from the Council (that deals with the education issues) and manages the formal relationships and stakeholder input into the work of the Council. I would also envisage ongoing operational relationships between FPEC and the noted bodies.

In relation to membership, as noted above, this should be on the basis of merit and expertise of individuals with a balance between educators and practitioners struck. I would caution against this being a 'representative' group in the sense of it potentially becoming a forum for lobbying. Thus, I would again suggest a split between the council itself and a separate stakeholder group/committee.

6. Q6.1: A registration exam could be a part of the overall framework, and particularly as part of the transition framework if used with nuance as articulated above. Caution should be taken if this is to be the sole or driving part of the education framework as proposed in ASIC's CP 212 (ASIC, 2013: 16-17). The key issue here is the 'fit for purpose' of the examination when the constraint of cost is considered. Given the diversity of financial advice (even if the narrow view of RG 146 product areas is applied), how one would examine all of these knowledge areas (without even considering skills and other attributes) within one test is difficult to construe with any degree of validity. Thus, this suggests a series of examinations to cover this 'curriculum' and thus suggest a very high cost model. Alternatively, a very narrowly construed purpose for the exam could be defined as part of the broader education program. For example, if the exam is the final 'hurdle' following formal education and a PY, then it could focus on examining recent changes to legislation, ethical standards and advanced practice.

In essence, the purpose and form of the examination need to be clearly defined. Once this is done the implications in terms of cost, utility and potential impact on advisers, advice quality and consumer perceptions of this will be able to be assessed. A priori, I am in favour of a broader education regime that seeks to build, broaden and deepen the knowledge, skills and attributes of planners while and informing a professional community of practice. An exam can be a part of this, however I see this best manifested in the form of a key exam that results in a professional designation (such as CFP 5) and thus

falls at the end of the 'entry' process that would incorporate formal education at AQF level 7 or above, admission to membership of a professional association, structured and supervised work experience, study towards a professional designation or cognate higher degree (or both) and then the exam.

7. Q6.2 – Practical implications of the exam are driven by its form and structure. This will clearly drive the breadth and length of the exam, the complexity of the logistics and the 'quality' issues of the 'level' of the exam, the volume and type of questions (instrument design and testing), the marking and moderation of outcomes, and the management of academic integrity issues. As noted above, the risk here is that the economics of the exam may dictate outcomes that are not in line with the purpose of it. Thus, it is argued that this is best construed in two manners:

1. As a short-term part of the transition for some advisers
2. In the longer term as part of the professional designation programs of the professional associations.

8. Q6.3 – Content will be dictated by the purpose and the desired learning outcomes. For purpose #1 noted above this should be broad based (covering all areas of advice, products, clients behaviour, strategy, ethics/behaviour and the advice process (including compliance)) and thus would align with AQF level 7 learning outcome descriptors (AQF, 2013). This would thus need to be in the form of a number of examinations. For purpose #2 this would concentrate on adviser conduct and obligations, application of knowledge to complex strategies/scenarios, client behaviour and reflective practice and thus would align with AQF level 9 learning outcome descriptors (AQF, 2013).

9. Q6.4 – In terms of setting and marking the exam, in relation to the above, a sub-committee of the FPEC could produce and maintain the bank of examination questions and could be responsible for coordinating invigilation of the exam (either in person or using digital proctoring services). The FPEC subcommittee could then coordinate marking using a pool of appropriate persons (depending on the form of the questions). In the case of the professional bodies, several of these have processes in place for such things and in this regard a set of standards should be produced for how this is conducted, particularly when this is outsourced.

10. Q9.2: If structured correctly in terms of governance and membership of the council, FPEC will be in an excellent position to assess transition arrangements.

11. Q9.3: Credit for prior learning can form a part of the solution, however this needs to apply within the realm of assessing learning outcomes at the relevant AQF level. These also have to be clearly evidenced. Caution is advised here as a race to the bottom in terms of credit could undermine the outcomes sought – not dissimilar to some of the issue with RG 146 and the DFS. For this reason the holistic approach to determining the education framework that includes policy as well as the curriculum is necessary.

12. Q9.4: The appropriate timeframe will be driven by the requirements that are put in place. If the current FPEC model is adopted then most existing advisers would be able to complete an existing eight course graduate diploma in less than two years (assuming no credit and a standard part-time student progression). Thus, at the outside, three years from implementation is reasonable, making the end of 2019 appropriate. Should a greater volume of learning be required or new curriculum be required to be built then this time frame would need to be extended.

13. Q9.5: As noted above, a nuanced approach that considers a range of factors may be appropriate to determine the amount of study required and in some cases eligibility for a practice exam only. This

would, however, require careful consideration of the relevance of factors, the evidence base to support them and the relative weight given to each. A key factor in such considerations would be the formal education (entry level and ongoing CPD) completed to date by the practitioner. In essence, this would be a detailed and evidenced based process that would target achievement relative to the learning outcomes specified in the new FPEC's educational framework.

5. Concluding comments

Overall, the PJC report recommendations are supported. The broad push to higher standards and professionalism are appropriate and needed, however care needs to be taken as the details are developed to ensure these aspirations are delivered on. In this regard, risk and timeframes can be managed by building on the work already done to date and adopting standards used by other professions. In particular, specificity around the education requirements and the need for the new FPEC to operate as an independent, expertise based organisation is seen as paramount in order to avoid the race to the bottom approach to education that has plagued the RG146 framework to the detriment of all stakeholders.

As noted, the higher education sector in Australia has a number of already accredited (by the current FPEC) quality financial planning programs and are collectively building the body of knowledge and future educators to support this profession. I encourage the Commonwealth to build on this and focus on the medium term outcomes in relation to the dividends that investment in quality education, quality education institutions and faculty can deliver when working hand in hand with the professions. In specific relation to financial planning, I see significant potential that is already being developed through the current FPEC and I know many of my colleagues (and I) stand ready to participate further if so required.

References:

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- Brimble, M.A., Cameron, C., Freudenberg, B., Fraser, C., and K. MacDonald, 2012 "Collaborating with Industry to Develop Financial Planning and Accounting Education", *Australasian Accounting, Business and Finance Journal*, 4 (6), 79-93.
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Appendix - FPEC Framework