Improving the Perception and Quality of Personal Financial Advice

David Williams, CEO My Longevity Pty Limited.

Summary

Considerable progress has been made in improving the standard of personal financial advice in Australia over the past ten years. However this progress has not been reflected in the perception by consumers and regulators of financial advisers and the quality of their advice

This paper suggests two ways of improving the quality and perception of advice

1. Promulgate the use of the International Standards Organisation Standard ISO 22222 (2005) as an independent yardstick for the quality of initial and ongoing financial advice.
2. Raise longevity awareness among advisers and their clients to improve the quality of dialogue with clients and to address a significant deficiency in the basis for illustrations and decisions.

Introduction

Personal financial advisers provide a service designed to obtain the consent of their client to investment and other activities. In Australia, professional standards are well defined by the Certified Financial Planner (CFP) mark, licensed by the Financial Planning Association of Australia (FPA).

This mark has been adapted by academia to provide university and graduate diploma level courses. The standard of education has continued to improve and there are many choices.

Practical training is now being achieved by requiring a year's experience. The FPA requires further appropriate experience to achieve the CFP mark, which has a worldwide reputation.

The FPA has significantly improved its services to its adviser members. Its internal standards for professionalism are very much higher than 10 years ago, when despite the existence of higher standards both the regulator and the consumer movement were advocating the RG 146 'minimum standard' as being adequate – which was clearly not the case, even at the time.

Despite many demonstrable improvements, the reputation of financial planning has continued to decline.

Contributions to this decline have included inappropriate regulatory supervision of licensees and advisers, the persistence of conflicted remuneration systems, some weaknesses of financial literacy programs in this space and increasingly complex legal requirements on planners in their communications with their clients.

This submission focuses on two important aspects of personal financial advice – professional standards and the importance of a personal time frame in achieving the properly informed commitment of a client.

I have been involved in the development of both aspects of advice in Australia and overseas. Refer to my background attached.

Professional Standards – how to improve consumer confidence

A significant problem for a self-administered mark such as the CFP is that it is effectively a brand. This is justified for marks such as for accounting, law and medicine where marks, professional memberships and the processes for granting them are long standing and respected.

As an emerging profession subject to the full glare of the media, financial planning does not have the long background which provides an intrinsic brand advantage. Restricting the use of the term 'financial planner' may make little difference to the perception of planners unless backed up by an independent standard, rather than just relying on a mark.

I strongly advocated the importance of a Code of Practice for the profession over ten years ago. In doing so I recommended that adopting an arms-length international standard (not a mark such as the CFP) would strengthen claims that the standard of practice was both high and independent of vested interests.

At the time, the new ISO standard for personal financial advice was being finalised by working committees involving 14 countries, and was published in 2005. Following is an excerpt from the ISO website describing this international standard.

ISO 22222 (2005) - Personal Financial Planning. Requirements for Personal Financial Planners

Abstract

ISO 22222:2005 defines the personal financial planning process and specifies ethical behaviour, competences and experience requirements for personal financial planners.

ISO 22222:2005 is applicable to all personal financial planners regardless of their employment status.

ISO 22222:2005 describes and addresses the various methods of conformity assessment and specifies requirements applying to each of them.

The ISO standard was the first of its kind developed for any profession. It was incorporated into the standards systems of a number of countries, but not Australia. It could easily be the basis for an independent benchmark in Australia for all marks and degrees claiming to represent an adequate standard of education and practice for financial advice giving.

A key benefit of making such a standard a centrepiece of a Code of Practice is that to achieve international and domestic endorsement, a standard must be contributed to by a wide range of interest groups – such as consumers, regulators and practitioners.

Using an independently developed international standard would underpin the integrity of granting restricted use of the term 'financial planner', since a wide range of interest groups are involved to ensure its quality. Such an approach would also ensure the standard could be adapted in Australia to reflect changing professional and community expectations or industry circumstances.

Some work could be required to effectively adapt the ISO standard to suit current Australian practices and aspirations, including a requirement that ongoing compliance with the standard must be supervised and endorsed by a prescribed entity (such as the FPA).

If the CFP mark and current academic qualifications already exceed the skill and knowledge requirements of ISO 22222, adopting the ISO standard as a benchmark should present little practical, financial or regulatory difficulty.

Importantly, such a step could provide a more visible independent endorsement to improve confidence in an important consumer and community service.

Longevity Awareness

ISO 22222 requires that personal financial planners must achieve the properly informed commitment of their clients before acting. In most other professions the conventional requirement is simply to acquire the consent of the client.

'Properly informed commitment' requires a joint process between adviser and client based on the ethical sharing of relevant information and, in due course, confirmation by the client that they have sufficient understanding to commit to proceeding. This requirement protects both parties against misunderstanding.

The national financial literacy program has been designed to address the problems of inadequate financial literacy at all ages. It should assist consumers in understanding the dialogue with financial advisers. Programs such as the Smart Money service provided by ASIC should also assist in this regard.

However, for older consumers (typically over age 50) there are significant gaps in their understanding of their possible remaining time frame – both as to how it may play out for them and what they might do to address important issues. Their approach to these issues underpins the direction and value of their personal and lifestyle financial planning.

For many people, longevity awareness is as important as financial literacy in facilitating good financial decisions.

For a person, longevity awareness can be defined as understanding the implications of increasing longevity and planning for them.

Two illustrations show how longevity awareness impacts on financial advice.

1. How long might I live?

The Australian Life Tables are widely used to illustrate how long a person might live. The latest Intergenerational Report goes some way towards explaining that these tables are not realistic for many people. The tables do not assume longevity will continue to increase.

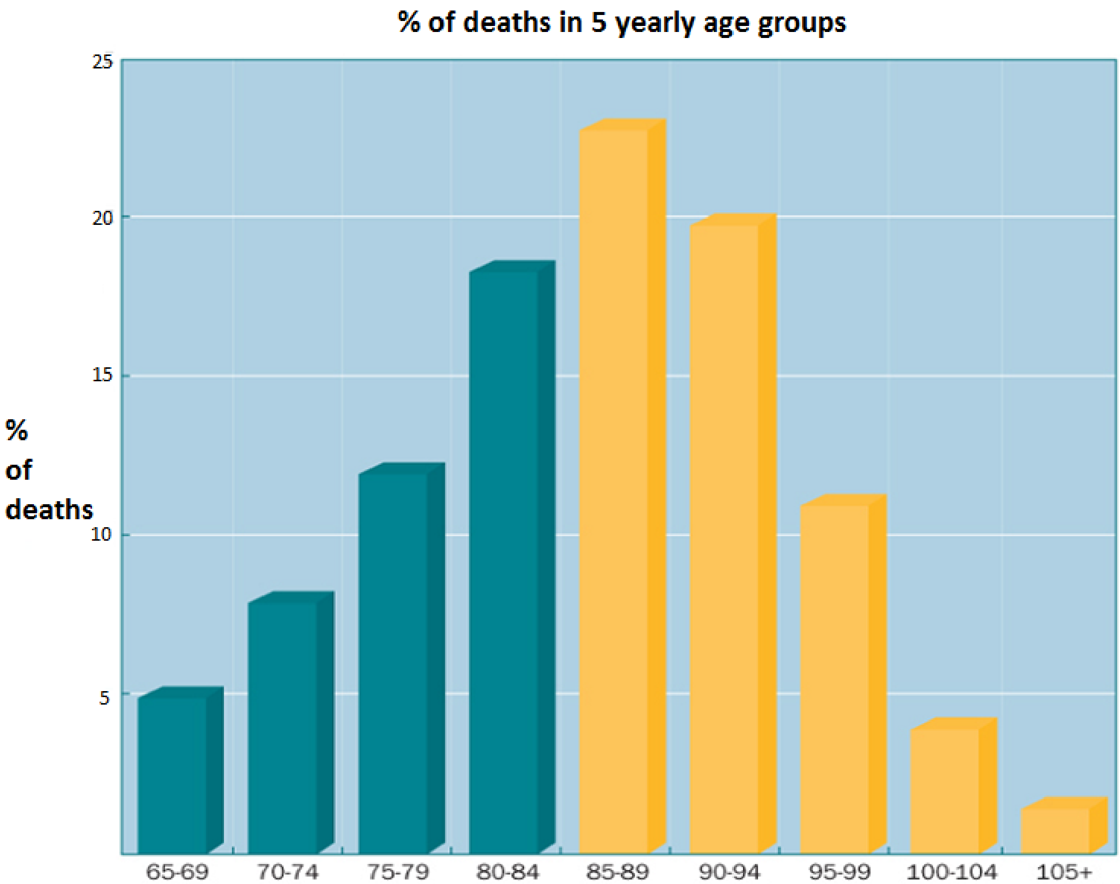
At 65, the 'error' is between 2 and 3 years. At 65, the Tables suggest an average female life expectancy of 24 years. So the 'error' is around 10%. Since most clients of financial planners tend to be in the upper 20% socio-economically, their average life expectancy is likely to be a further 10% greater. Combining these two numbers, the starting 'error' for planning purposes is around 20% - a significant difference when projecting how long funds might last and in making decisions about whether or not to continue in paid employment and the level of investment risk that might be acceptable to achieve goals.

We become more different from each other as we age, not more alike. This is driven by our different life experiences and how our physical and mental capabilities evolve with age.

The following illustration gives one example of just how different we become. It shows the % of deaths predicted for women aged 65 in five year age groups. It is based on the Life Tables and so suffers from the same 'error' as outlined above. However this does not much affect the conclusions.

The illustration shows that less than 25 % of women aged 65 die within a couple of years of the average life expectancy for their age group – which means over 75 % are a lot different from the average. Using the average is likely to be a significant problem for many older women, especially for those who may be predisposed to live longer than average.

My website at www.mylongevity.com.au (free and sponsor free) is devoted to explaining how these differences might arise and what response an individual might choose to make. Its purpose is to enable individuals to develop a personal time frame for planning. To date the website has fielded over 90,000 inquiries without major promotional effort.



Longevity awareness is useful in many other planning areas as well as in illustrating potential financial planning outcomes. It provides a basis for better outcomes in health management, longer participation in the workforce (where possible) and reduction in the community and personal cost of aged care. All of these areas are part of the complex mix of issues underlying good personal financial decisions and in achieving broader lifestyle goals.

2. **What might my remaining years look like?**

The next illustration shows on how a person's lifespan evolves at different ages. Based on data from the Australian Institute of Health and Welfare, it only depicts an average outcome and is less satisfactory than an individual analysis. However, the table gives a useful breakdown of the potential impact and timing of disabilities. People are typically surprised at the periods of disability free life.

Illustrations such as this assist with reviewing retirement options and reskilling possibilities over a better understood time frame. This can substantially improve the quality of financial decisions.

Stages in Longevity

Men & Women

Age Now	Disability Free Years		Years with Some Disability		Dependent Years*		Totals		Average Age at Death	
65	8	10	7	7	4	6	19	23	**84**	**88**
75	4	5	5	4	3	5	12	14	**87**	**89**
85	1	1	2	2	3	4	6	7	**91**	**92**

**Dependent years are defined as those with severe or profound core activity limitations. Core activities comprise self-care, mobility and communication.*

Source: AIHW

These two illustrations form part of a dialogue which uses longevity awareness to facilitate more comprehensive and useful financial advice.

Our familiarity with time provides an important advantage for using longevity awareness to prepare a client for financial decisions. We use time concepts in our everyday life. Dialogue based on time builds trust and engagement more effectively than one based on money.

Developing the time framework

Using these approaches, advisers and their clients can develop a timeline for each client's remaining years and identify the anticipated stages in their life. As well as summarizing their current thinking, this gives clients a framework within which they can respond better to unexpected issues that may arise. The time framework provides clients with a greater sense of mastery over their future and the relationship with their adviser will be better informed.

There is no plan without a time frame. The best time frame is the one that each person develops for themselves – with guidance as required. Productive conversations with advisers – financial, legal, health and career – are more likely to ensue.

Background

I have been involved in financial planning since 1986. I published widely on retirement issues during my executive years with RetireInvest (Director) and Bridges (CEO) and was involved in financial planning standards until 2007, including:

- Representing the financial planning industry on the Australian Securities Commission's "Good Advice" process in 1995.

- Chairing the FPA's Public Policy committee through the first major steps of regulatory change, subsequently being awarded the FPA Distinguished Service Award in 2002.

- Chairing the Standards Australia committee on Personal Financial Planning which participated in developing for ISO (the International Standards Organisation) ISO 22222 (2005) - Personal Financial Planning. After over four years work by eighteen countries, this international standard was published in 2005 (and reviewed in 2011).

I am a Founding Fellow of the Institute of Company Directors, a Senior Associate of FINSIA, hold a degree in Science and completed the technical requirements of the FPA CFP mark in 1999.

I founded My Longevity Pty Limited in 2007 to enable both the public and financial planning professionals to access reliable research on longevity and ageing published since the turn of this century. My free and sponsor-free website is at www.mylongevity.com.au and to date has provided over 90,000 longevity assessments along with supporting information on longevity.

I have presented to a wide spectrum of audiences on longevity and have authored and contributed to many publications on the subject.

David Williams

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