

EDUCATION AND TRAINING STANDARDS OF FINANCIAL ADVISERS

Estplan Submission to Treasury

The views expressed in this document are based on Estplan's experience as a provider of post retirement service education and implementation to financial advisers. They are general in nature and based on observation. Estplan accepts no liability for the accuracy of the document.

Estplan director Vic Ruth had been part of the financial services industry in the 1970s and was the creator of the Payne Ruth model. He spent a few decades outside the industry and observed many changes to the industry (not all positive) when he returned to financial services in 2007.

Estplan supports increased adviser education as a means to address some of the issues faced by the industry. Over the last 4 decades our observation has been that in the drive to sell financial product, the focus on the consumer and their needs are lost. Whilst a refocus on education and more stringent professional ethics will provide a way to change consumer perception of the financial adviser, it is our belief that this needs to be accompanied by an emphasis on competency (via changes to the curriculum) and an ability to increase adviser agility to changing consumer needs.

Based on our experience consulting with small to medium advisers and their practices the educational focus also needs to be broadened to include sales and support staff.

Recently, advisers have become so focussed on compliance and product sales (both of which are performance measures for dealer groups), that they and their staff have lost the ability to innovate. This inability to innovate and lack of responsiveness to changing consumer needs hinders the changes that are required of financial services both by the community and the government.

Whilst we broadly support the conclusions of the report, we submit the following for additional comment and discussion.

Section 1: Introduction

1. Comment on 4: Whilst the aim of FOFA has been to provide certainty to consumers and a framework for advisers, the practical impact has been that advisers have become lost in the process of compliance. Our position is that regulation is necessary but that in this instance the regulation has overtaken client service. From an education perspective, the focus has changed to compliance driven education with less emphasis on changing to meet consumer needs. Limited resources are diverted into compliance based activity. For example an ageing population requires post retirement services – estate planning, aged care and succession planning. However, advisers whilst identifying these areas are necessary for their survival in the future, are unable to invest the time to complete competencies and implement these services in their practice.
2. Comment on Point 7: A framework to increase professional, educational and ethical standards is important, however this framework needs to refocus adviser mindset from

being a product salesperson to becoming a genuine service provider for consumers. Part of this needs to address the influence that fund managers have on the industry and the incentive programs offered by these to advisers. This drives advisers to make decisions in their own best interest rather than that of the client. Additionally, what is lacking in adviser education is the ability to differentiate the big picture from day to day operations. In other words adviser education lacks a long term strategic approach that is based on changing demographics and is needs driven. A bachelor's degree may assist with the introduction of this approach. However, leadership and the ability to think strategically about current and future needs to consumers should be included in the curriculum and the professional development component needs to have a strategy component in the assessment.

3. Comment on Point 8: Core knowledge requirements need to be reviewed to encompass services that cater to the changes in the demographics of the Australian Population.

Section 3: Education and Training Standards of Financial Advisers

Q 3.2: We would debate the need for a specific bachelor degree qualification. Financial advisers come from different professional streams. This positively impacts the quality of advice offered and helps develop empathy with the client. Having a specific degree, limits the diversity in the industry and increases barriers to entry into the profession. It is our position that instead, the professional ethics and strategic component of the diploma and advanced diploma needs to be reviewed with the aim to increase stringency in measuring ability to deliver quality advice instead of product sales.

Q 3.4: Whilst some may argue that a year of professional development is excessive, it is our belief that some professional development needs to occur. Unfortunately, many advisers lack commercial knowledge and are expected to run their practices as small business. Many of these are advisers who service clients that own small business (these are usually higher net individuals). Part of professional development needs to encompass a long term approach which includes planning for growth and longevity of the practice as well as understanding basic small business challenges.

Section 7: Ongoing Professional Development

Q 7.1: It is our position that the ongoing professional development needs to be regulated, with a view to meeting set objectives. At the moment the professional development programs appear fairly ad-hoc.

In summary, our position is that financial adviser education needs to be expanded to ensure that there is

1. Better perception of education standards of financial advisers in the community
2. A focus on delivering quality service which is needs based.



3. Increased education of delivering better practice commercial outcomes which result in practice longevity and hence delivers better consumer outcomes.
4. A focus on the big picture – that is a more strategic approach to financial advice – which needs to commence prior to getting into the ‘nitty-gritty’ of product advice risk and regulation.

