

16 September 2022

Assistant Secretary
Advice and Investment Branch
The Treasury
Langton Crescent
Parkes ACT 2600

FinancialAdvice@treasury.gov.au

Fortnum Private Wealth submission – Financial Adviser Education Standards consultation paper

About Fortnum Private Wealth

Established in 2010, Fortnum Private Wealth (Fortnum) is a growing community of passionate, like-minded advice professionals.

Fortnum provides a range of licensing and business services to financial planning businesses including a robust governance and risk management framework, investment research, technology solutions, and ongoing education, training and professional development.

We exist to support advisers to deliver the best possible advice to their clients and build strong businesses of significant capital value.

The Fortnum community includes 91 financial planning practices and 220 financial advisers nationally.

Introduction

Thank you for the opportunity to provide feedback on the Financial Adviser Education Standards consultation paper.

We commend the government for engaging the advice community to ensure adviser education standards are appropriate and fit-for-purpose.

We support Treasury's aim to "strike the right balance between valuing formal education and on-the-job experience". This recognises that good advice is not only the outcome of specialised knowledge, technical competence and professional standards but also life experience.

Financial advice is a sector in transition. It is transitioning from a highly regulated, product-focused industry to a respected profession.

The hallmark of every profession is professional, ethical and education standards including tertiary qualifications.

However, as a sector in transition, there must be greater understanding, flexibility and consideration for experience to stem the loss of highly capable senior advisers. Current education requirements significantly disadvantage this cohort, as tertiary financial planning qualifications did not exist when they entered the industry so they have not enjoyed the same opportunities to study and gain the requisite qualifications.

Furthermore, senior advisers stand to gain little by way of financial benefit for the time, effort and money they will be required to spend to obtain an approved degree, given many are likely to retire in the next 5-10 years. There is also the opportunity cost to consider, as time spent studying is time away from seeing clients and earning money, at a critical time in their lives.

Senior advisers themselves also only have a finite amount of time left to save for retirement.

These factors are deterring some very experienced advisers from pursuing tertiary education.

As such, Fortnum supports the introduction of an experienced adviser pathway.

Senior advisers, who have passed the Financial Adviser Exam, demonstrated technical competency and clean record, should be given the opportunity to continue serving their clients.

Importantly, an experienced adviser pathway will help the industry retain much-needed talent.

There is an enormous need and demand for professional advice, with Australia's 2.7 million¹ baby boomers either in, or approaching, retirement, and around \$3.5 trillion set to exchange hands in the next two decades as part of Australia's largest intergenerational transfer of wealth.²

Demand among younger demographics is also steadily increasing, as Australia's climbing property market lifting household wealth and debt, and living costs continue to rise.

Yet, the number of financial advisers around to help Australians protect, manage and grow their wealth is rapidly shrinking, due to the combination of attrition and higher professional, ethical and education standards.

In calendar year 2021, adviser numbers fell to 18,965 from 20,764, and are forecast to slip to 13,000 by 2023, according to the Adviser Ratings' Advice Landscape Report.³

This mass exodus is compounded by the small number of new entrants.

There are only around 900 students enrolled in approved degrees, of which only half are expected to go on and become practicing financial advisers.

At this rate, it would take decades to replenish adviser numbers.

We believe Treasury's proposed experienced adviser pathway is a sensible solution to the industry's skills shortage.

That said, the proposed criteria for accessing the experienced pathway is too lax and could create a scenario where a large percentage of the industry, and potentially the majority, are not degree qualified. This would have significant unintended consequences for an emerging profession.

Under the proposed rules, advisers in their 30s and 40s could qualify for the experienced adviser pathway, despite the prospect of a long financial planning career ahead of them.

Unlike experienced advisers in their 50s and 60s, younger advisers are likely to get a healthy return on any investment in their education. They will be able to charge higher fees and benefit from the privileges of belonging to a bona fide profession including trust and respect, leading to greater self-regulation.

Therefore, Fortnum recommends that the experienced adviser pathway be limited to those who are within 5-10 years of retirement, as of 1 January 2026.

We also believe that advisers who qualify for the experienced adviser pathway should still be made to complete the ethics subject in an approved degree. This would potentially allow for a reduction in the nine hours of ethics training currently prescribed as part of the CPD requirements.

Overall, Fortnum supports the proposals in the Financial Adviser Education Standards consultation paper.

Creative solutions are needed to attract, retain and nurture talent while ensuring adequate consumer protections.

Fortnum has consistently advocated for higher professional, ethical and education standards, and public policy that strengthens consumer protections. We believe all advisers should be suitably qualified to do their job.

We do not believe introducing a carve-out for experienced senior advisers would create a double standard and set back the industry's journey to professionalism.

Flexible transition arrangements would ensure fairness for senior advisers who have passed the Financial Adviser Exam, maintained their CPD obligations, and have a proven track record of excellent service and advice. After all, good advice is not only the outcome of education and training but life experience.

Thank you for your time and consideration.

Please do not hesitate to contact me if further information is required.

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1. Census 2021 (<https://www.theguardian.com/australia-news/2022/jun/28/australias-millennial-generation-is-overtaking-baby-boomers-new-census-data-shows>)
2. Wealth transfers and their economic effects, Productivity Commission: November 2021 <https://www.pc.gov.au/research/completed/wealth-transfers/wealth-transfers.pdf>
3. Adviser Ratings' Advice Landscape Report

FINANCIAL ADVISER EDUCATION STANDARDS

CONSULTATION PAPER FEEDBACK

FORTNUM PRIVATE WEALTH

QUESTIONS – EXPERIENCED PATHWAY

10 Year's Experience

1. Is the proposed window for determining 10 years' experience (between 1 January 2004 and 1 January 2019) appropriate? If not, what alternative period could be considered?

Fortnum supports the introduction of an Experienced Adviser Pathway. This would help the industry retain valuable experience by encouraging senior advisers to continue serving clients.

We believe the proposed 10 years' experience requirement is an appropriate starting point.

However, for the reasons stated in our introduction, the pathway should be limited to advisers within 10 years of retirement, based on the Government's retirement age, as of 1 January 2026.

Under Treasury's proposed definition of experienced adviser, a person in their 30s or 40s could qualify, potentially creating a scenario where a large percentage of the industry, if not the majority, are not degree qualified. This could adversely impact the industry's journey to professionalism.

Furthermore, we believe that advisers who qualify for the Experienced Adviser Pathway should still be made to complete the ethics subject in an approved degree. This should then allow for a reduction in the nine hours of ethics training currently prescribed as part of the CPD requirements.

2. If required (for example, due to an audit of their eligibility), how can advisers prove they have 10 years' full-time equivalent experience?

Advisers would need to record and provide evidence of tenure via the FAR and a detailed CV, stipulating any periods of part-time work.

Clean Record

3. Are the proposed sources for determining a clean record appropriate? Why/why not?

There are potential issues with the proposed sources for determining a clean record, given the subjective nature of assessing an adviser's compliance history and behaviour.

Culture, processes and governance frameworks vary from licensee-to-licensee.

Furthermore, licensees are often aware of behaviours and compliance issues that are not recorded on the FAR but may still be significant and require remediation.

Advisers may also find it difficult to provide 10 years' of supported employment history, given a number of large licensees no longer are in operation.

There should be a clear, objective assessment framework for determining clean record.

4. What other sources could advisers rely on to indicate that they have a clean record?

Other potential sources could include:

- Current and former licensee references; and
- Professional association reporting / references.

5. If required, what evidence can advisers rely on to prove they have a clean record?

As above.

6. What threshold should be adopted to identify whether conduct is minor, trivial, and isolated?

The threshold should align with the existing breach reporting regime.

7. Is the non-time limited clean record requirement appropriate? If not, for what period should an adviser be expected to maintain a clean record to access this pathway?

The proposed requirement is appropriate.

Poor behaviour, at any point, may appear minor or trivial when viewed in isolation but if there is a pattern of poor behaviour, this may indicate systemic issues.

There must be greater clarification over whether this will cease at some point. Our view is that once an adviser has formally qualified for the experienced adviser pathway, their status should not be revoked. In the event of a breach, they should be subject to the same processes and penalties that broadly apply but they should not be required to undertake further study.

Assessment of eligibility

8. What should self-declaration of eligibility require? For example, should an adviser have to make a statutory declaration?

Financial advisers applying for the Experienced Adviser Pathway should provide a statutory declaration.

Future misconduct

9. Are new tools required to specifically deal with advisers accessing the experienced pathway whose future conduct amounts to misconduct? Why/why not?

As previously stated, once an adviser has formally qualified for the Experienced Adviser Pathway, their status should not be revoked. In the event of a breach, they should be subject to the same legal and regulatory processes and penalties that broadly apply, including a ban or disqualification, but they should not be required to undertake further study.

Other

10. For existing advisers not eligible for the experienced pathway but who have a foreign qualification at AQF 7 level or above, is it practical and appropriate for education providers or licensees to assess how these qualifications meet the education standard and what additional study may be required, rather than the Minister? Why/why not?

Licensees do not have the capacity or capability to assess the relevance of foreign qualifications. Given the complexities, education providers may be better placed to provide this assessment.

That said, if education providers are given this task, it is imperative that standards are consistently applied.

11. How many existing advisers do you expect to access the experienced pathway? How many of those have already started to undertake formal education to align with the current existing adviser requirements?

We expect that we may have up to 10 advisers who would access this experienced pathway and none of these have commenced formal education.

12. What else may be required to ensure an appropriate level of consumer protection is maintained and any potential harm is minimised?

Experienced advisers should be subject to the same supervision and monitoring requirements, under their licensee including an internal audit program.

13. Would any further requirements be necessary for the experienced pathway to ensure the professionalisation of the industry is maintained?

The Experienced Adviser Pathway should only be available to senior advisers who have passed the Financial Adviser Exam, maintained their CPD obligations and demonstrated a clean record.

We believe the proposed conditions are appropriate.

Questions - Formal education and exam

1. Are the proposed core knowledge areas appropriate for the financial advice profession? If not, what is missing and why is that area important?

We do not believe that the core areas should be amended.

The reason for this is that there is every possibility that their future careers will cross over areas currently covered in the current 11 core areas.

Without a foundation of knowledge in these areas, they cannot be expected to have the skills and experience necessary to provide advice in these areas, even with on-the-job training.

2. Are there any specific areas under each core knowledge area that should be prioritised or emphasised? For example, a particular element of taxation or commercial law?

Taxation law is essential as it is an integral part of providing financial advice, as is Superannuation and Retirement Planning.

Ethics & Professionalism is also extremely important, as is Financial Advice, Regulatory and Legal obligations to ensure the advice they provide is within the legal framework allowable.

3. Are the proposed core knowledge areas appropriate for the financial advice profession? If not, what is missing and why is that area

important? Would proposed changes to core knowledge areas necessitate changes to the exam content? Why/why not?

Proposed changes to the core knowledge areas would not necessitate changes to the exam given the focus is mainly on Professionalism and Ethics and Corps law which are covered in the core subjects suggested.

4. Is it practical and appropriate to allow education providers to self-declare that their degrees teach the core knowledge areas? Why/why not?

Education providers could self-declare that their degrees teach the core knowledge areas if there are clear guidelines to ensure consistency in quality of these subjects across the board.

5. What form should education providers' assurance to Government take

We are not an education provider and feel unqualified to answer this with accuracy.

6. If self-declaration is not appropriate, what alternatives could be adopted to streamline the degree approval process?

We are not an education provider and feel unqualified to answer this with accuracy.

7. Is it practical and appropriate for education providers or licensees to evaluate a new entrants' completed tertiary courses against the new core knowledge areas to assess whether they have met the education standard or what additional study may be required? Why/why not?

As a licensee, we would be looking for extremely clear and consistent guidelines around this before we would feel comfortable in evaluating, as mentioned above however, we believe the core subjects should remain unchanged.

8. Is it practical and appropriate for education providers or licensees to also evaluate foreign qualifications against the new core knowledge areas and assess what additional study may be required, rather than the Minister? Why/why not?

See above re foreign qualifications

9. Should new entrants whose existing qualifications don't fully meet the education standard be able to 'top-up' their qualification by completing individual units, rather than a full qualification? Why/why not?

Yes, agree to 'top ups'

It is unreasonable to expect new entrants to repeat the same core units of study again.

10. What other changes should be made to the education requirements for new entrants? How do your proposed changes support the professionalisation of the financial advice industry and ensure consumer protection?

Consumers need to be assured that the adviser that sits in front of them has achieved a minimum level of technical competence which the existing core knowledge areas, with the addition of the exam meet.

This, combined with a minimum of 1 year mentoring by a suitably qualified and experienced adviser, along with CPD requirements, will ensure that they have covered all elements of what it takes to be a suitably experienced and technically strong adviser.

Questions – Professional Year

11. How else could the professional year be amended to ensure it remains fit for purpose, ensuring appropriate supervision of graduate financial advisers without creating unnecessary barriers to entry?

Perhaps build in some additional areas of learning as a requirement around soft skills and other non-technical elements.

We do not believe that the basis of the program needs amendment, but we would like to see some further assessment on the supervisor.

A supervisor without all the skills and knowledge required (and a good compliance/complaint record), can have a detrimental impact on the adviser that the PY Candidate will become.

12. In what ways do the professional year requirements create a barrier to entering the financial advice profession?

- Not enough sitting dates for the exam – the suggestion of sitting the exam at any time in their education journey is sensible.
- Timing it takes to achieve exam results and being able to progress to Q3 is a barrier currently, particularly if they do not pass on the first attempt.
- Degree completion rules could be amended to mean that they need to complete their degree before the end of PY rather than having to have completed it before starting Q3
- 5 file checks can be prohibitive in the last quarter (this can be a lot of new clients to have to meet in a short period of time), perhaps consider 3 with the addition of coaching on specific elements of the advice process such as file notes, research, scoping etc.

13. What are the risks and benefits of the possible amendments?

Risks around removing some of the more prescriptive elements of the PY are that it does put additional responsibility on Supervisors and Licensees.

Both parties need to be of sufficient quality and have the resources to deliver all the support that an adviser of the future requires.

14. Will allowing integration of the professional year with tertiary study streamline the transition between education and work? Why/why not?

We would agree with partial integration. This would allow for a 'cadet' type program to filter students into practices or industry where they can complete their professional year in its entirety. Practices are struggling to find staff, and this would allow a pathway for both parties.

We currently see the need for a future candidate to work in a practice for a defined period before commencing the Professional Year would be wise.

Our view is that the Education forms the groundwork but not until you are working in a practice can you truly understand the day-to-day operations of a Financial Planning Practice and your place in it.

After a period spent in the practice understanding how the advice process truly works and perhaps doing more foundational tasks, then we believe that a PY candidate is ready to commence. This grounding is essential.

We do not believe that a candidate straight out of university with no practical experience is ready to commence the Professional Year. Perhaps a partial integration could assist with this while they complete their studies.

The minimum 12 months mentoring on a consistent basis is essential to making a well-rounded adviser of the future.

Supervisor suitability is also extremely important. The supervisor must be of extremely high quality, or the mentoring will not be sufficient.

15. If the professional year is integrated into tertiary study, how many professional year work hours should be completed as part of a degree?

If integrated into tertiary studies, we imagine it would only be a partial integration.

Perhaps 100-200 hours of integration with the remaining 1300-1400 to be completed on the job.

16. What role does industry play in encouraging new entrants into the industry?

Building and delivering training programs and support around Professional Year Candidates. The on-the-job training/mentoring is essential however they need more. Industry can draw on their strengths to deliver education around a variety of areas.

Industry should support the candidates with additional Education and Tools to allow them to learn about all the things that an adviser is likely to encounter in their working life.

This should include not only the technical aspects of being an adviser but also soft skills and things like managing grief and mental health. An adviser is much more than a technical strategist, they need to be trained accordingly.

If it is decided that the PY is partially integrated into the education pathway, the industry has a responsibility to encourage financial planning practices to take on these students on a part time basis.

17. Should the exam format be changed for new entrants? If so, how?

No. Just allowing flexibility around sitting and more sitting dates.