

Opening Statement

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Parliamentary Joint Committee on Corporations and Financial Services (the Committee)

Inquiry into proposals to lift the professional, ethical and education standards in the financial services industry

Check against delivery

The Financial Services Council (FSC) strongly believes in the value that quality financial advice delivers. Research has shown that there are many consumer benefits to receiving financial advice.

KPMG Econtech research has shown that Australians obtaining financial advice save an extra \$1,590 per year when compared to someone who does not receive advice.¹ The benefits of financial advice extend well beyond financial factors.

Advised clients feel a stronger sense of control of their finances, have lower levels of stress and feel a greater sense of well being.²

Since the 2009 bipartisan inquiry by this Parliamentary Committee into Financial Products and Services in Australia (The Ripoll Report), there has been a strong focus on

1. Financial advice laws which govern the duties, conflicts management and payments financial advisers are permitted to earn (we largely refer to this as the Future of Financial Advice (FOFA) reforms; and
2. Adviser competency and professional standards.

The FOFA reforms introduced a:

- Best interest or fiduciary style duty;
- Requirement to always place the client's interest first;
- Prohibition on commissions for personal or general advice (ex risk insurance);

¹ KPMG Econtech, Value Proposition of Financial Advisory Networks Update and Extension,

² Irving, K., Gallery, G., Gallery, N., Newton, C., (2011). I can't get no satisfaction ... or can I? An exploratory study of satisfaction with financial planning and effects on client well-being, *JASSA The Finsia Journal of Applied Finance Issue 2*, p.40, 41 & 44;

- Prohibition on conflicted remuneration payments for personal advice;
- Permitting scaled advice with legal certainty;
- New disclosure obligation for advisers; and
- Suite of new powers for ASIC.

The FOFA reforms have substantially changed the structure and operation of the financial advice industry for the better. They did not however address financial adviser competency and professional standards.

We therefore believe that this PJC inquiry is now dealing with the unfinished business of financial advice reform: adviser competency and professionalism.

The reforms which should result from this Inquiry will conclude a substantial, multifaceted reform process which has taken more than five years.

Accordingly, we have proposed a holistic framework in our submission to this inquiry on adviser competency which would build on and compliment the FOFA changes.

We must get the architecture right before we determine solutions and prerequisites for being a financial adviser.

The FSC's submission to this inquiry proposed:

- The establishment of the Advice Competency Standards Board (ACSB). The ACSB integrates financial advice regulation, by ASIC and the Tax Practitioners Board (TPB), and sets competency standards for different advice segments;
- Removing the ambiguity between personal advice and general advice through a revised model for advice by relabeling 'general advice' to 'general information' and linking competency standards to the different advice segments.

The purpose of the ACSB would be to set competency standards for the financial advice industry.

It would be made up of industry stakeholders and it would include ASIC and the Tax Practitioners Board. The ACSB would consult with the advice industry

to develop appropriate competency frameworks for the relevant advice segments.

In developing a holistic adviser competency framework the FSC believes it is important for the ACSB to give consideration to the following matters:

- Education requirements (including ethics training);
- Continuing professional development /experience requirements;
- A single national exam;
- Professional Standards or a Code of Conduct;
- A training/course register to enable advisers, licensees, and regulators to keep track of which courses meet ACSB requirements; and
- Recognition of professional associations.

Let me now briefly explain some of the ACSB's key design features.

We believe the Board should have statutory backing which includes regulatory appointees (ASIC and the TPB) and industry representation.

It is critical that the framework developed by the ACSB applies to the whole industry. This will provide uniformity of competency and education requirements regardless of which licensee an adviser belongs to or whether an adviser is a member of a professional association.

We have also suggested that the ACSB be funded by financial advice licensees through a user-pays model which is found throughout the financial services industry.

In an environment where financial adviser licensees are proposing their own standards, (as we have seen in today's papers) we believe that consistency will be important.

The advantage of providing a holistic competency framework is that it delivers uniform and holistic competency framework for consumers of financial advice.

In our view, consumers must be able to trust that regardless of which adviser they are seeing or obtaining advice from, the adviser has met the competency and professional standards set by the ACSB.

This, together with increased transparency and greater disclosure of ownership and experience through the government's adviser register will increase consumer confidence in advice.

Ultimately our objective is that more Australians can seek financial advice and receive the many benefits that quality financial advice delivers.

The combination of sensible statutory obligations through FOFA, consistent adviser competency standards and increased transparency through the adviser register will assist us in meeting this objective.

Thank you.