

LBA

SUBMISSION ON

AUTHORISED FINANCIAL ADVISOR COMPETENCE

Submission to: Securities Commission

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INTRODUCTION

The Life Brokers Association (LBA) wishes to comment on the recently published Staff Paper on Authorised Financial Adviser Competence. Although our members mainly offer advice on Category 2 products, some members offer advice to clients on Kiwi Saver, Managed Funds, Unit Trusts, Superannuation and Property Investment.

BACKGROUND

The LBA commenced as an Incorporated Society in September 1994. The aim of the Association was to support Independent Life Insurance Brokers who were not aligned or tied to any one product provider. The Association introduced a Code of Ethics, and established a formal Disciplinary Committee to handle complaints from members of the public. The code of ethics includes the following clauses:

- Always place the best interest of the clients above your own direct or indirect interest.
- Maintain the highest standard of professional competence and give the best possible advice to clients by seeking to maintain and improve professional knowledge, skills and competence.
- Hold in strictest confidence, and consider as privileged, all business and personal information pertaining to a clients affairs.
- Make full and adequate disclosure of all facts necessary to enable clients to make informed decisions.

Today our membership exceeds 150 risk brokers and the number of formal complaints received from members of the public and referred to the Disciplinary Committee equates to less than 1% of membership per annum.

COMPETENCE

LBA members are required to exhibit competence in all areas in which they offer advice and encouraged to seek the assistance of qualified professionals in areas they are less competent. They are encouraged to obtain their annual Practising Certificate which recognizes continuing professional development and is a prerequisite to becoming Associates or Fellows of the Association.

As a Professional Body, the LBA believes our members should receive recognition for their adherence to maintaining ethical standards and competence. We feel most of our members already have the knowledge, skills, experience and ethical standards that will be required of a competent AFA in their chosen fields of advice.

[DISCUSSION POINT A] What qualifications do you consider would potentially meet those criteria (theoretical, practical, CPT)? For each qualification you list, please describe the type of financial activity for which it is suitable. Is the qualification you name the only one suitable for that type of financial advice activity?

Comments:

The LBA view is that qualifications on their own do not provide any proof of competence and other evidence will be required to satisfy the Code Committee. We believe any adviser who has already completed a Level 5 or higher qualification, has five or more years experience and has obtained a Practising Certificate should be recognized as a competent AFA provided they only offer advice in their areas of competence.

Qualifications and designations we feel would meet the requirements are:

- Graduate Diploma – Financial Planning (All Category 1 & 2 Products)
(CFP Designation)
Level 7/8 qualification
- Graduate Diploma – Personal Risk Management (Some Category 1 & all
(CLU Designation) Category 2 Products)
Level 7/8 qualification
- Certificate in Financial Services – Advisor Link (some Category 1 & all
Category 2 Products)
Level 5 qualification

We feel that many other professional qualifications held by lawyers, accountants etc would potentially meet the criteria provided the individuals were regularly involved in providing financial advice on Category 1 products.

[DISCUSSION POINT B] Do you agree with the introduction, progressively, of NQF definitions for all adviser qualifications?

Comments:

The LBA supports the introduction of NQF defined adviser qualifications at Level 5. This will enable advisers the opportunity to gain their qualification at a level most will easily accomplish. Presently the National Certificate in Financial Services (Financial Advice) provides a grounding in several areas of advice but does not cover the more complex areas covered in the University based Graduate Diploma courses.

The LBA feels that in years to come the Level 7/8 qualifications will be required if we are to operate in the wider Trans Tasman marketplace.

[DISCUSSION POINT C] Do you support the concept of a baseline standard? Do you support the proposal to assess applicants against the baseline standard? Do you consider Level 5 to be an appropriate baseline standard for AFA's?

Comments:

The LBA supports a baseline standard as proposed with the introduction of the National Certificate in Financial Services (Financial Advice) Level 5. Our members provide advice on Life, Trauma, Income Protection, Medical Insurances as well as Kiwi Saver, Superannuation, Managed Funds and Property Investments. In most cases, they follow a process which requires them to:

- Establish Client Relationship
- Gather Data & Establish Needs
- Process Data, Research and Provide Solutions
- Present Recommendations to Clients
- Implement Recommendations
- Follow Up and Monitor Outcomes

Competence in each of these areas is vital and evidenced by the lack of complaints received and referred to our Disciplinary Committee.

[DISCUSSION POINT D] Should existing advisers whose **baseline assessment is unsuccessful** be allowed to practice as AFA's for a short period to enable them to further develop their skills? If so, what restrictions should be imposed (for example, work under supervision)? How many months do you consider reasonable?

Comments:

The LBA has a large number of members with 10 or more year's experience who do not have any substantiated qualifications and have not been in an exam/assessment environment for a number of years. Although skilled and professional, they may well fail to pass a baseline assessment at their first attempt. Should they be allowed to continue working and earning a living? We believe they should be allowed to offer advice in areas identified as being "safe", and given time to up skill in areas identified as being "unsafe".

As far as a time limit and if supervision is required, we feel that supervision should only be necessary if the area of advice is complex, and the adviser wishes to continue advising in that area. Subject to courses being available in other less complex areas of concern, we feel that 6 months would not be an unreasonable time to remain unsupervised.

[DISCUSSION POINT E] Should existing advisers who **successfully pass baseline assessment**, but do not meet the requisite “top-up” requirements for a particular class of work, be allowed to practice as AFA’s in that class for a short period while they develop the additional skills? If so, what restrictions should be imposed? How many months do you consider reasonable?

Comments:

This has been covered under point D. We feel supervision is required for complex areas of advice which, if not carried out properly, will result in an adverse outcome for a client. We feel the 6 month limit would be a reasonable time frame.

If after the 6 month period, the adviser still fails to meet baseline assessments in that area, they would not be suitable to offer advice in that area (supervised or otherwise) until they reached the standard required.

[DISCUSSION POINT F] We are interested in your views on the use of NQF standards more broadly than for only AFA’s.

Comments:

As stated earlier in this submission, LBA supports the NQF standards as proposed. All areas of advice should be covered and any LBA member who decides they do not wish to advise on Category 1 products will still be required to achieve a minimum Level 5 qualification as part of the LBA’s education pathway.

An area we would like addressed is for advisers employed by QFE’s and advising on Category 1 products. We feel they should have to obtain the same Level 5 qualification as non aligned advisers.

[DISCUSSION POINT G] We are interested in your ideas for regulatory or other strategies to help promote a culture of professionalism across the adviser industry.

Comments:

As stated earlier, one of the requirements of LBA members is to “maintain the highest standard of professional competence” and “maintain and improve professional knowledge, skills and competence”. Membership of the Association is voluntary and there are presently no regulatory requirements to belong to a Professional Body within the financial advice space.

LBA would welcome a move to have membership of an industry related Professional Body recognized as an important step to becoming an AFA. A well constituted Professional Body which requires members to adhere to a Code of Ethics, has a

structured disciplinary process and provides an education pathway would promote a culture of professionalism across the adviser industry.

LBA believes it is such a body and will make sure it has processes in place to meet the requirements of the Code Committee once these are formulated.

CONCLUSION

The LBA has always supported the introduction of the Financial Advisers Act 2008 although the late changes in direction took us all by surprise. The change from the proposal of establishing APB's to being required to become an AFA is not without its challenges. With an estimated 6-8,000 advisers in the marketplace and approximately 2,500 belonging to any Professional Body, the task of assessing and authorizing advisers is mind boggling.

LBA would hope that all our member's who have already obtained a Level 5 or higher recognised qualification, and have evidence of 5 or more years advice experience together with a Practising Certificate, be able to operate as AFA's in their area of expertise. Some LBA members belong to more than one Professional Body and have designations such as CFP and CLU. We would recommend that these members be able to operate as AFA's from inception as they will have met the requirements of the designation body (IFA).

For our members who do not have Level 5 or higher qualifications, but have more than 10years experience and have their Practising Certificate, we would hope they could also be given AFA status until formally assessed.

LBA would like to thank the Commission for the opportunity to make submissions on the Staff Paper.